

FINANCIAL TIMES

DEPARTMENTS



Deng's legacy
Reform has become
unstoppable

Martin Wolf, Page 16

Credit ratings
Foreign currency
ceilings boosted

Preparing for Emu, Page 3



Popular pliers
Americans
get a grip

Technology, Page 14



Burgundy
So much more
than wine

Survey, Pages 11-13

World Business Newspaper <http://www.FT.com>

TUESDAY FEBRUARY 25 1997

Netanyahu gives pledge to speed sell-off of bank

Israeli prime minister Benjamin Netanyahu pledged to speed up privatisation of Bank Leumi, the country's largest bank, and press ahead with further deregulation. The bank indirectly controls 8 per cent of Israel's GDP through its industrial investments. Page 18; Interview, Page 17

Offshore bank crackdown: Antigua has decided to close five out of six of the Russian offshore banks on the island as part of a move to clean up the image of its banking sector. British, US and Canadian authorities have called it a haven for money launderers. Page 6

Lufthansa faces overpricing charge: Germany's federal cartel office accused Lufthansa, the dominant national airline, of overcharging customers on its Frankfurt-Berlin route where it has a virtual monopoly. Lufthansa said it would challenge the preliminary ruling in court. Page 18

Japan to scrap premium-setters: Japan is to abolish rate-setting bodies for its non-life insurance industry, which determine premiums for specific risks. They had been criticised as a form of cartel. Page 8

Wall Disney is to take a 5 per cent stake in Pixar: the computer animation company responsible for the world hit feature, *Toy Story*. The deal looks Pixar into a 10-year partnership in which both companies will share production costs equally. Pixar will take an equal share of profits after Disney's distribution and marketing have been covered.

Egypt extends martial law: The Cairo government extended martial law provisions for three years, despite charges that the security measures undermine political opposition. It said the extension would protect widespread economic reforms. Page 7

Disgraced copper trader freed on bail:

Former star copper trader Yasuo Hamanaka, left, walked out of a Tokyo jail yesterday on bail of Y50m. He has entered a guilty plea in Tokyo District Court to charges of fraud and forgery in connection with unauthorised trades over 10 years that cost his former employer, Sumitomo Corp, an estimated Y2.6bn.

UN farm aid funds: After five years of talks, the UN's International Fund for Agriculture and Development, which provides assistance to small farmers, has won agreement on replenishment of funds. It will receive \$485m for its next three years of work. Page 7

Valeo, the French automotive components group, announced a restructuring that it said would result in the company having fewer, but larger, plants in western Europe. Page 19

Qatar Liquefied Gas Co was launched as Qatar inaugurated the world's largest liquefied natural gas exporting facility, part of a new Y7.2bn industrial zone.

Russia short of space funds: Yuri Koptev, head of the Russian Space Agency, admitted that his government was over a year behind in budget payments for the international space station. But he said its partners, the US, Japan and the 10-member European Space Agency, were "inclined" to accept a new schedule.

Hong Kong visits soar: People pouring into Hong Kong before it handed back to China took it to the top of the long-haul travel league in 1996, overtaking Thailand as most visited faraway destination, says holiday company Kuoni.

Norway probes 1982 air crash: Norway plans to reopen an investigation into the 1982 crash of a passenger aircraft following new speculation that it collided with a British military jet. Fifteen people died in the crash of the Twin Otter craft off the northern coast of Norway.

Germans lay off beer: German beer consumption fell from 130 litres a head in 1994 to 124½ litres last year, said the Ifo research institute. It blamed the decline on changes in lifestyles, the ageing of the population, and a rainy summer. Page 2

FT.com the FT web site provides online news, comment and analysis at <http://www.FT.com>

STOCK MARKET INDICES

New York Stock Exchange

Dow Jones Ind Av 5,977.03 (+45.41)

NASDAQ Composite 1,394.88 (+0.58)

Europe and Far East

CA40 2,957.05 (+5.01)

DAX 3,184.21 (+0.12)

FTSE 100 4,331.1 (-3.7)

Nikkei 10,285.39 (-137.55)

US DOLLAR

New York futures

£ 1.6336 (1.6192)

DM 1.6587 (1.6521)

FT 1.6715 (1.6715)

Fr 5.847 (5.845)

St 1.458 (1.458)

Y 122.155 (122.155)

London:

£ 1.6336 (1.6192)

DM 1.6587 (1.6521)

FT 1.6715 (1.6715)

Fr 5.847 (5.845)

St 1.458 (1.458)

Y 122.155 (122.155)

OTHER RATES

US 30-year bond 6.7% (6.7%)

US 10-year 6.1% (6.1%)

US 5-year 5.6% (5.6%)

US 30-year T-bond 6.3% (6.3%)

US 10-year T-bond 5.8% (5.8%)

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NEWS: EUROPE

Finance minister targets potential tax revenues and excessive use of state guarantees to banks

Livshits sets out his fiscal priorities

By Chrystia Freeland in Moscow

The Russian government last year lost \$30bn in potential tax revenues – three times the size of its loan from the International Monetary Fund – because of legal, state-authorised tax offsets and exemptions.

Mr Alexander Livshits, finance minister, said collecting this shortfall and cutting back on the state's byzantine forms of borrowing and money creation would be his top priority this year.

But, in an interview, Mr Livshits said the government would still need some non-budgetary forms of financing this year to make up for continuing problems with revenue

collection. He said the government would continue to offer state guarantees to commercial banks as a way of paying federal debt to enterprises, to regional governments and to spending ministries.

Mr Livshits would not reveal how many state guarantees Moscow planned to issue this year but last week a ministry official said the government would set a ceiling of Rbs4,000bn (£700m) – a sharp decline from the Rbs4,000bn issued to date.

The scheme gives the ministry of finance a way of making required expenditures at a time when revenue shortfalls have depleted government coffers.

The basic principle is that

instead of directly paying regions or enterprises owed money by the federal budget, the ministry of finance offers a guarantee to commercial banks which lend to the recipients of federal funding, often at a considerable discount. Later in the year, the ministry of finance repays the loan.

Foreign investors and international financial institutions are pushing Moscow to eliminate the programme because it is not transparent and amounts to hidden government borrowing, not regulated by the budget. Western economists in Moscow believe state guarantees may be a consideration in continuing talks between Russia and the IMF over a programme for 1997.

Critics of the state guarantees also say there is a risk they might be used to channel funds away from the intended government organisation to the commercial banks through which the money is paid.

Mr Livshits, who has sought to crack down on this sort of convoluted government spending and make the process more transparent, concedes that, ideally, the government should not use the state guarantees. But he said that this year Moscow will have no choice but to continue the programme, albeit at lower levels.

"We want to stop the system as soon as we can," Mr Livshits said. "But for now it is useful for us,

especially because it gives us a way of borrowing which is not covered by the borrowing limits set by the budget."

Foreign investors said the continued reliance on the state guarantees was "disappointing" but that their final verdict would depend on the extent and form in which the guarantees are used.

"In a way it is disappointing, but at the same time it is difficult to be completely negative," said Mr Per Mellstrom, head of research at Brunswick Brokerage, a Moscow-based investment bank. "The way it's handled will show if it is corrupt or not. It will have a negative impact on money supply and inflation, but only if it is abused."

EUROPEAN NEWS DIGEST

VW corruption move expected

Volkswagen, Europe's leading carmaker, will issue a statement tomorrow shedding further light on the wide-ranging investigations into allegations of corruption in the company's purchasing division. The allegations, raised by the German newsmagazine *Der Spiegel* this month, snowballed with the magazine's latest issue yesterday.

Der Spiegel alleged a number of executives who moved to VW from General Motors with Mr José Ignacio López in 1993 had been implicated in the corruption probe now being conducted by prosecutors in Germany and Switzerland, as well as the internal VW probe under way.

VW said Mr Alvarez left the company as part of its out-of-court accord with GM over the latter's allegations of industrial espionage against Mr López and some associates, including Mr Alvarez.

Haig Simonian, Motor Industry Correspondent

Carinthia labour move

The far-right councillor of the Austrian province of Carinthia yesterday revoked his order to bar companies that employ workers from outside the European Union from public construction contracts. The order by Mr Karl-Heinz Grasser, who is a close aide to Freedom Party leader Mr Jörg Haider, sparked criticism from other parties and businesses when it became known last week.

The order was never enforced, and legal experts said that it violated several Austrian and EU laws. Mr Grasser said he wanted to emphasise the need to give job preference to local workers at times of rising unemployment.

Eric Frey, Vienna

Yeltsin warns of sackings

Russian President Boris Yeltsin continued his campaign to reimpose himself as the country's leader with a warning yesterday that some cabinet ministers might be sacked. In a meeting in the Kremlin with Mr Victor Chernomyrdin, prime minister, Mr Yeltsin said a cabinet reshuffle might be the only way to appease Russia's disgruntled people, whose frustration with months of unpaid wages and pensions has set off a national wave of strikes and demonstrations. "Maybe we need some changes, maybe we need some names, maybe we need some people to be changed in the government," Mr Yeltsin said on national TV.

Chrystia Freeland, Moscow

Holocaust fund delay

The Swiss government's efforts to set up a humanitarian fund to aid holocaust victims and their families is being delayed because of an inability to agree who will handle the administration of the fund. Mr Flavio Cotti, Switzerland's foreign minister, and Mr Israel Singer, secretary general of the World Jewish Congress (WJC), met in Berne yesterday, but were not able to reach agreement on procedural details. The WJC is concerned

farmers are earmarked for benefit of specific individuals and are not dispensed at the discretion of various Jewish organisations. The fund is being financed by a SF100m (\$68m) contribution from the big three Swiss banks, and Swiss industry and commerce have promised another SF60m.

William Hall, Zurich, and Norma Cohen, London

For sale: French glacier

France's only privately owned glacier with pristine alpine flowers, eagles and deer is to go on the market for FF1m (\$880,000). Frustrated for 30 years, owners of the Gebroulaz glacier in the Alps are making a new push to sell their icy valley near the ski resorts of Meribel and Val Thorens despite a state ruling in 1990 outlawing any new building. "We think the price is reasonable. For the price of a baguette, you could buy 13 square metres of the glacier," Marius Fernandez, who represents the family trying to sell, said yesterday. The glacier has been in the family since 1854.

Reuter, Paris

ECONOMIC WATCH

Germans drink less beer

Germans choose wine

Consumption (litres per head)

Beer

Wine

Source: IFO

1991 1992 1993 1994 1995 1996

180 174 162 154 142 134

Source: IFO

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NEWS: EUROPE

German parties see need to cut business costs

By Ralph Atkins and Peter Norman in Bonn

A rare summit meeting of Germany's government and opposition leaders last night reached broad agreement that lower business costs were needed to boost employment - but failed to narrow significant differences on tax reform.

After three hours of talks, headed by Germany's Chancellor Helmut Kohl and Mr Oskar Lafontaine, the leader of the opposition Social Democratic party (SPD), the two sides agreed that the lowering of non-wage labour costs would be the best way of cutting the country's

record 4.86m unemployment level. However, the SPD and the Bonn coalition - the centrist Christian Democratic Union and Christian Social Union and the small Free Democrat party - have yet to reconcile their distinct positions on tax. "There was no narrowing," Mr Lafontaine said afterwards.

A further meeting of a smaller group of six senior party figures is planned for Friday, with lower level talks today to bridge disagreements on the financial implications of bringing parts of the government proposed reforms forward by a year to January 1998.

The highly unusual cross-party talks reflect the gravity of Ger-

many's economic problems and are aimed at averting a legislative deadlock this summer between the coalition-controlled lower house of parliament and the opposition-dominated second chamber.

Meeting agreed curbing non-wage labour costs would be best way to cut jobless

The Bonn government has proposed wide-ranging reforms of Germany's complex income and corporation tax system that would add reforms forward by a year to January 1998.

It has left open the option of

raising value added tax to finance part of the tax cuts but is aiming for an overall net tax reduction of DM30bn (\$17.8bn).

The SPD wants tax reforms implemented as early as next year

SPD also objected to plans to tax holiday, Sunday, and extra shift working as well as reduced tax breaks for commuters.

The coalition has set an Easter deadline for resolving differences in the hope that none of the participants will want to be associated with the breakdown of efforts to solve Germany's problems. Mr Wolfgang Gerhardt, FDP leader, said: "We must show the German public that the political parties have the strength to agree."

Adding to the pressure are doubts whether the country will this year meet the Maastricht treaty criteria for public finances and therefore qualify for economic and monetary union. Mr Lafontaine confirmed this problem was one of the issues raised yesterday.

The SPD leader said he and Mr Kohl would not participate in further discussions until a settlement was in sight.

From the coalition, Friday's working group will consist of Mr Theo Waigel, finance minister, Mr Wolfgang Schäuble, the leader of CDU/CSU MPs, and Mr Hermann Otto Solms, FDP parliamentary leader.

The SPD will be represented by Mr Rudolf Schäping, parliamentary leader, Mr Henning Voscherau, governing mayor of Hamburg, and Mr Heinz Schleusser, finance minister of the state of North Rhine-Westphalia.

Spanish telecoms sale to cut debt

By Tom Burns in Madrid

The proceeds of last week's sale of the Spanish government's remaining 21 per cent stake in the telecoms operator Telefónica will be used exclusively to reduce debt issues this year, Mr Fernando Díez Moreno, finance undersecretary, said yesterday.

This will nudge Spain closer to the Maastricht criteria for membership of the planned European single currency criteria by pegging back its debt ratio and its budget deficit.

Mr Díez Moreno said a net Pta275bn (\$2.6bn) was realised from the disposal of the telecoms operator. In addition the government has earned Pta180bn in capital gains tax receipts from the sale, which will be used to finance infrastructure projects over the next three years.

And all this month, hundreds of thousands of Turks have been burning off house lights, blowing whistles and banging pots and pans for one minute promptly at 8pm every night in a national protest against government corruption.

Ominously, army generals have also raised their voices. Gen Cevik Btr, deputy chief of staff, said last week: "We will defend secularism to the end. We cannot make any concessions to anyone on Ataturk's principles."

The rigidly secularist army, which has toppled three governments since 1960, sent a column of tanks through an Islamist stronghold close to Ankara earlier this month after the town's mayor - from Mr Erbakan's Welfare party - organised a rally attended by the Iranian ambassador calling for an Islamic state.

Mr Erbakan has backed down in the face of the secularists' energetic reaction. However, as long as Mrs Ciller and her fellow 117 MPs see fit to support him, Mr Erbakan need not worry too much about street protests or censure motions.

Bulgaria, IMF resume currency board talks

By Theodor Troev in Sofia and Anthony Robinson in London

Bulgaria's interim government is due to resume talks with the International Monetary Fund today aimed at laying the basis for recovery from the country's financial and economic crisis.

The talks will centre on preparations for the introduction of a currency board system, which will deprive the government of power to subsidise the budget or loss-making enterprises.

Negotiations were broken off with the former socialist government last October as a sign of dissatisfaction with the pace of economic reform.

The IMF also suspended disbursement of a three-year \$530m structural loan facility but promised to return for substantive negotiations on a range of financial issues when the country had a stable government.

The despatch of an IMF mission led by Ms Stefan Sofianski, the interim prime minister of Bulgaria's recently appointed caretaker government, reflects confidence that Bulgaria now has a government more committed to structural reform than the socialist-led regime

which resigned after a month of street protests.

Mr Sofianski is winning popular confidence by speaking openly on Bulgaria's problems and plans to solve them, in contrast to his secretive socialist predecessor, Mr Zhan Vidov.

A World Bank mission is Sofia last week said up to \$200m was available for approved projects if the government speeded sell-offs.

The government will no longer be able to prop up loss-making enterprises

lifted price controls and completed closures of loss-making state enterprises.

Members of parliament last week gave the caretaker government powers to continue talks with international financial institutions and to arrange foreign loans before dissolving parliament in preparation for early general elections on April 19.

Although the main aim of the current IMF mission is to prepare the ground for the introduction of a currency board government officials also hope to arrange for loan disbursement to be resumed even before implementation of the tight monetary regime which rigidly links domestic

Censure motion on Erbakan points up opposition disarray

By John Barham in Ankara

Turkey's eight-month-old Islamist-led coalition government faces its fifth censure motion in as many months in parliament this afternoon.

As in all four preceding votes, the outcome is a foregone conclusion. Mr Necmettin Erbakan, the prime minister, should easily muster a majority in the 550-member parliament.

According to Mr Necmettin Erbakan, Turkey's first Islamist prime minister.



Necmettin Erbakan, Turkey's first Islamist prime minister.

should muster a majority in the 550-member parliament.

think it will fall soon.

Censure motions are more

a product of power struggles

in opposition parties than

concerted attempts to topple

the government.

Parliament's two leftwing

parties are bitterly distrustful

of each other. The venerable People's Republican

party is struggling for

survival. The larger Democratic

Left party is in the throes of

a leadership battle. Both par-

ties tabled separate motions

but agreed on a joint effort

in a confused and finally

abortive merger attempt.

Opposition conservatives

are split between the

Motherland party and the

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It is hardly surprising that

opposition to the government

is moving beyond the

confines of parliament. In

recent weeks, demonstrators

have repeatedly demonstrated

to the capital's boulevards to

protest against Mr Erbakan's

attempt to undermine the

secularist heritage of Kemal

Ataturk.

Ten days ago nearly 10,000

women marched through the

city chanting anti-Islamist

slogans. Last month a rally

in Ankara organised by the

Turk's trade union confederation

drew some 100,000

protesters. Unlike most pro-

tests, which often deterio-

rate into pitched battles with

riot police, these big rallies

passed off peacefully.

And all this month, hun-

dreds of thousands of Turks

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However, as long as Mrs

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NEWS: WORLD TRADE

Foreigners cool plans to invest in India

By Tony Tassell in Bombay

A cooling of sentiment among many foreign investors towards India has been highlighted by Siemens, the German telecommunications to power group, which plans to scale back its investments in the country.

AY FEBRUARY 25 1997

Spanish telecoms sale to cut debt

By Tom Burns in Madrid

The proceeds of last week's sale of the Spanish government's 49% stake in the telephone operator Telefónica will be used exclusively to reduce debt levels this year, the central bank's governor, Fernando Díaz Moreno, said yesterday.

The sale will judge Spain's fitness to the Maastricht criteria for membership of the proposed European single currency criteria by providing a debt ratio and a budget deficit.

Mr Díaz Moreno said a new budget law, which was not submitted to the disposal of the telephone operator, in addition to the government's budget, will receive the necessary receipts from the sale, which will be used to reduce the infrastructure budget over the next three years.

He said the successful

privatization meant

that Spain's

debt ratio

had been reduced

from 100% of GNP

to 80% of GNP.

The downward trend in

debt ratios of Spain's

public authorities, he said, will not be as steep as the rate of gross debt reduction of above the 100% of GNP of approximately

10% per year.

Mr Díaz Moreno

also said that

the government's

debt ratio will

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NEWS: THE AMERICAS

AMERICAN NEWS DIGEST

NY killings 'not political'

The widow of the Palestinian who shot dead a tourist and injured six others before killing himself at New York City's Empire State Building on Sunday said yesterday her husband was not politically motivated but in personal distress.

Mrs Fathiya Abu Kamal, 55, said in Gaza that her husband, Ali Abu Kamal, travelled to the US last December seeking a financier for a new investment company, but somebody cheated him out of his savings about \$500,000.

"My husband thought his life ended at that point and there is no way to compensate him," she said. "He was 59 years old, he could not regain his money. If he really fired the shots it is only out of despair and disappointment."

In New York, Police Chief Howard Safir said the shooting was the act of a "deranged individual" acting alone. "We have some idea [about the motive] but we're not discussing it," he said. *Reuters, Gaza*

Optimism on US jobs

Job hunters in the US should have an easier time finding employment this spring, with financial services companies and manufacturers leading the way on new hiring, according to a survey released yesterday.

Manpower, the largest US temporary staffing company, said 28 per cent of 16,000 US businesses surveyed planned to increase hiring in the three months beginning in April. Only 6 per cent expected to reduce employment, while the remaining 66 per cent planned no changes or were uncertain.

At this time last year, 36 per cent planned increases and 8 per cent planned cuts.

Construction companies were the most bullish, with 37 per cent planning new hiring but that sector often picks up in the spring. Financial services companies were more optimistic than in any comparable period in eight years: 22 per cent saw hiring increases and only 5 per cent expected cuts.

Among durable goods manufacturers, 33 per cent forecast increases and 6 per cent decreases. Also optimistic were service companies, which include hotels and ad agencies, and wholesale and retail trade companies.

AP, New York

Brazil budget deficit down

Brazil registered an operational budget deficit of 3.89 per cent of gross domestic product in 1996, down from the 4.79 per cent deficit it recorded the year before.

The result was better than the 4.5 per cent most economists had been expecting, but well above the 2.5 per cent target the government had set itself at the beginning of the year.

Economists believe a reduction in the budget deficit is the most important challenge facing the Brazilian government if it is to secure the low inflation that its 30-month-old economic reforms have achieved.

The government also announced a primary budget deficit, which does not take into account interest payments on government debt, of 0.09 per cent of GDP, compared with a surplus of 0.35 per cent in 1995.

The deterioration was partly the result of payments made to save struggling banks and the cost of refinancing the debts of several states. Mr Pedro Malan, finance minister, said yesterday the budget would show a 1.5 per cent primary surplus this year. *Geoff Dyer, São Paulo*

Antigua offshore bank clean-up

By Canute James
in St John's, Antigua

Antigua has decided to close five out of six Russian offshore banks on the island as part of a move to clean up the image of its offshore banking sector, said by British, US and Canadian authorities to be a haven for money launderers.

The government of this former UK colony has also sought help from London, which is sending Mr Rodney Gallagher, an adviser on financial services in the region to the Foreign Office and a former partner with Coopers and Lybrand.

Local officials said the banks to be targeted were suspected of laundering "hundreds of millions of dollars" for the Russian mafia. Most of the island's 57 offshore banks are US-owned.

"Mr Gallagher is a known expert in this area, and we expect the help which he will give us will help with this problem," said Mr Lester Bird, Antigua's prime minister. "We have taken this action because there

appears to be increasing international unease with our offshore banking sector."

The government sees the offshore financial services as important in diversifying the economy of the eastern Caribbean island of 55,000 people, whose economy is based on tourism. "Offshore financial services have great potential for our economy, but we have to make improvements," the prime minister said. "We have one of the tightest money-laundering bills in the world, but we must enforce it."

The government has rejected applications from several other Russian banks which want to operate in Antigua. Officials have denied that this and the closure of the five are the results of foreign pressure, and say it is rather a policy decision to clean up the sector.

The banks being closed did not meet the required standards of reporting, said Mr Wrenford Fernandes, who was the government's adviser on narcotics and money laundering policy for six

months. "Many of these banks were established here under legislation approved in 1983, but the regulations have been tightened this year with a new money laundering bill. Licences will now be granted only to those applicants which are affiliated with reputable financial houses."

British concern about Antigua's offshore banking sector was reflected in a warning late last year from the Bank of England about making deposits in the island's European Union Bank, which advertised on the Internet. The Bank of England warned prospective depositors "to carry out appropriate due diligence on the bank."

The European Union Bank was linked to Mr Alexander Konanaykhine, who has been accused by the Russian authorities of leaving the country with \$8.1m which was not his. Mr Konanaykhine, who has since sold his shares in the bank, is being held in the US on immigration charges and is fighting deportation to Russia.

"We have been flooded in recent

years by applications for establishing offshore banks, and many of these came here under legislation which required minimal reporting standards," said Mr Ferrance. "Since then all the holes have been plugged with the new legislation. Now all applications and all existing offshore banks will fall under the supervision of the government's banking inspectorate."

All existing offshore banking licences will be reviewed, and those found to be operating in an "unsatisfactory manner" will be shut down, Mr Ferrance said.

Although the sector is small, Antigua's offshore financial institutions have played a significant role in moving money around the world.

Antiguan officials and businessmen say privately the island was used to channel significant sums of money to the Nicaraguan Contra rebels when they fought the Sandinista government. Money to finance the construction of Iraq's "super gun" was also passed through Antigua, they say.

Mexico critical of drug trade charges

By Leslie Crawford
in Mexico City

Mexican government officials yesterday blamed the annual US certification process, which judges the efforts of foreign countries to eradicate the illegal drugs trade, for a series of articles in US and Mexican newspapers which have linked senior Mexican politicians to drug traffickers.

On Sunday, the New York Times accused Mr Manlio Fabio Beltrones, the governor of Sonora, of collaborating with Mexico's most powerful drug cartel and creating havens for smugglers who transport narcotics. Another Mexican governor, Mr Jorge Carrillo Olea, a former chief of anti-narcotics intelligence, was also named by the New York Times as having alleged ties to drug dealers.

Both governors have denied any involvement with drug traffickers.

Other reports in the Mexican press, quoting "protected witnesses" in a US money-laundering suit, have sought to link the family of Mr Carlos Salinas, the former president, to the drugs trade. These allegations have also been denied by lawyers acting for the Salinas family.

The reports come less than a week after the Mexican government arrested its senior anti-narcotics director, Gen Jesus Gutierrez Rebollo, on charges of being in the pay of a leading drug cartel. The affair was a serious embarrassment to the Mexican and US governments, which both praised the general on his appointment two months ago.

Mr Jose Angel Gurria, Mexico's foreign minister, said yesterday that damaging allegations had become commonplace in the weeks prior to US certification.

"Everyone feels entitled to give their opinion; allegations are leaked to the press, newspaper articles appear and everything becomes most disagreeable," he said in a radio interview. "Countries like ours just have to sit there and weather the public storm. Certification is really a unilateral and very unjust process."

Despite the scandal surrounding Gen Gutierrez, the US State Department is expected to announce on Thursday that the US will certify Mexico as an ally in the war against drugs. US officials have let it be known that strategic considerations, such as a common 2,000-mile border and Mexico's position as a magnet for US investment and trade, were likely to outweigh concerns about possible drug corruption in the Mexican government.

Monkey on your back #41: How to choose the hardware when you've already chosen Windows NT.

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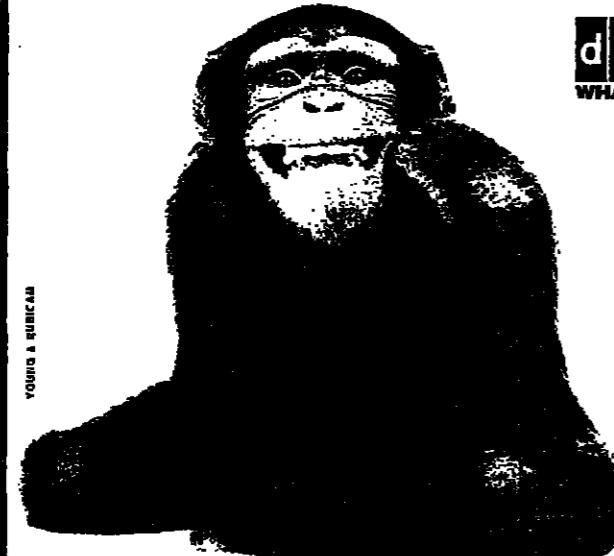
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The Cuban sugar harvest: much seems to be riding on it this year

Glen Green

particularly comforting to foreign companies awaiting payment.

A European businessman in Havana this month seeking payment for deliveries of agro-chemicals to the Cuban sugar sector went away disappointed. "I was told there wasn't any money in the bank," he said. "The Cubans said they needed refinancing because there was a liquidity crisis."

Suppliers to the sugar sector from Britain, Switzerland and South Africa are understood to be among companies experiencing payment problems.

Some had letters guaranteeing payment signed by ministers or validated by Cuban banks.

Adding to the worries is the perception that so much seems to be riding on the current sugar harvest.

The crop is reported to be already heavily committed for two years because so much of Cuba's short-term credit and financing is guaranteed by sugar shipments.

This seems to point to a confusing log-jam of commitments. Many diplomats and businessmen believe it was a factor in the surprise sack-

ing at the start of the year of the respected head of the Cuban state sugar selling company, Cubanacar. Officials say Mr Alberto Betancourt Roa was replaced because of "deficiencies in his work".

Even more worrying is the fact that prospects for the 1996/97 sugar harvest do not look particularly bright so far.

Officials are predicting only a "modest" increase in the current crop over the 4.45m tonnes produced last season with the help of foreign financing.

Particularly comforting to foreign companies awaiting payment.

The harvest has got off to a slow start, hampered by delays in the arrival of essential spares and inputs. This is reported to be the result of disruptions to the flow of foreign financing caused by the Helms-Burton law, which appears to have frightened some of some sugar shipments.

The harvest will have tightened the commitments backlog. "Everyone is chasing after the same sugar," the European banker commented.

This may also hinder Cuba's ability to obtain fresh credit. Earlier this year, the

International Economic Indicators: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

Consumer prices Producer prices Earnings Unit labour costs Real exchange rate

| | | | | | | | | | | |
|------|-------|-------|-------|-------|------|-------|------|-------|-------|-------|
| 1986 | 101.9 | 98.8 | 102.1 | 99.8 | 88.0 | 100.9 | 97.5 | 103.6 | 103.8 | 107.4 |
| 1987 | 105.6 | 100.7 | 103.3 | 97.5 | 76.1 | 101.3 | 92.3 | 103.1 | 100.0 | 107.1 |
| 1988 | 102.3 | 102.0 | 103.8 | 99.2 | 71.0 | 102.3 | 92.8 | 107.8 | 95.0 | 110.9 |
| 1989 | 112.2 | 104.9 | 104.9 | 101.4 | 74.3 | 103.6 | 84.2 | 114.0 | 104.0 | 109.9 |
| 1990 | 121.5 | 113.9 | 113.5 | 104.0 | 73.2 | 108.3 | 87.7 | 112.7 | 104.5 | 107.5 |
| 1991 | 126.6 | 116.3 | 117.3 | 107.3 | 74.1 | 111.9 | 96.8 | 124.2 | 110.9 | 109.9 |
| 1992 | 130.4 | 117.7 | 120.1 | 107.0 | 74.1 | 114.0 | 95.5 | 126.6 | 114.6 | 110.5 |
| 1993 | 134.3 | 119.2 | 123.1 | 106.7 | 76.6 | 115.4 | 94.3 | 125.8 | 118.8 | 122.2 |
| 1994 | 137.8 | 119.8 | 126.5 | 105.4 | 74.5 | 116.2 | 92.4 | 128.4 | 118.5 | 112.2 |
| 1995 | 141.7 | 122.1 | 129.1 | 105.8 | 68.9 | 115.8 | 92.0 | 122.5 | 115.8 | 110.7 |
| 1996 | 145.8 | 126.4 | 134.0 | 104.8 | 73.4 | 115.8 | 91.3 | 135.9 | 116.9 | 110.7 |

1st qtr. 1996 2.7 2.0 -0.9 72.0 -0.3 -0.8 1.6 -0.4 22.4 1.8 -0.2 3.7 113.1

2nd qtr. 1996 2.9 2.4 -0.3 72.3 -0.1 0.1 -0.5 1.6 -0.5 21.0 1.6 -0.5 3.7 110.2

3rd qtr. 1996 2.9 2.9 -0.9 72.5 0.0 0.1 -0.5 1.6 -0.5 116.1 1.5 -0.5 2.7 110.7

4th qtr. 1996 3.2 2.9 3.4 -0.9 74.5 0.1 -0.6 2.0 14.3 14.3 14.3 14.3 108.7

FRANCE

Consumer prices Producer prices Earnings Unit labour costs Real exchange rate

| | | | | | |
| --- | --- | --- | --- | --- | --- |
| 1986 | 102.5 | 98.6 | 101.6 | 103.4 | 102 |

Mexico
critical of
drug trade
charges

By Leslie Crawford
in Mexico City

Martial law extended in Egypt

By Mark Habermann in Cairo

The Egyptian government has extended martial law provisions to protect widespread economic reforms, despite strong criticism of security measures as undermining the political opposition.

Parliament on Sunday approved a presidential decree extending for a further three years emergency laws which allow lengthy detention without trial and subject civilians to trials in military courts.

Mr Kamal El-Ganzouri, the prime minister, justified the extension of the law on the grounds that Egypt's economy could become a target for terrorist groups intent on hitting government attempts to secure foreign investment and pursue extensive privatisation.

At a late-night session, the east People's Assembly passed the law with 432 members in favour of extension and 12 against. The ruling National Democratic party has a 317-seat majority in parliament. Mr El-Ganzouri said the government would take steps to correct "any mistakes as a result of the application of the law".

The current laws are directed against the activities of Islamist militants whose sporadic battles with the security forces have left over 1,000 people dead in the past five years.

Two weeks ago 10 Coptic Christians were gunned down in a church in Upper Egypt by suspected Islamist assailants. The Copts are believed to have been targeted after visiting Israel. Last April, 18 Greek tourists were shot dead in Cairo by Islamists who later admitted they thought the visitors were Israelis.

The violence no longer appears directed against Egypt's tourism industry, which saw a rise in visitors

during 1996 after a lull from 1992 to 1995.

Despite the government's view that the emergency law will help protect the economic reforms no clear evidence exists of economic sabotage by Islamists.

However, business people predict that an estimated 250,000-300,000 redundancies stemming from privatisation may give the Islamic groups an incentive to oppose the reforms.

Egypt's opposition parties broadly condemned the 1995 elections as having been distorted by the security force's use of the measures in the emergency laws. Fifty-four alleged members of the banned though non-violent Muslim Brotherhood were sentenced by a military court to three-five years' jail prior to the election.

The emergency law is not being used only to combat violence," said Mr Gasser Abdel-Razek, secretary-general of the Cairo Centre for Human Rights. "It's being used to marginalise any political groups. The law is effective in allowing the state to do whatever it likes, without stopping the violence, which has been ongoing throughout the period the law has been in effect."

Egypt's state oil corporation, Amoco of the US and the Egyptian affiliate of Italy's Agip, have set up a company to operate four gas concessions off the Nile Delta, industry officials said yesterday. Reuter adds from Cairo.

The company, to be known as Mediterranean Gas, will operate in the Balkim, Timsan, Ras el-Barr and East Delta Deep concessions, all of which are shared by Amoco and Agip. The state's Egyptian General Petroleum Corp (EGPC) has 50 per cent of the new company and the other 50 per cent is split evenly between the foreign companies, they said.

Their existence is a source of worry in a multiracial nation that has based its prosperity on a reputation for political stability, evidence that not all sections of society have benefited equally from a boom that has lasted more than a decade.

The zones would be regarded as middle class in many a decaying city on the African mainland. But this is Mauritius, the country that enjoys some of the highest per capita incomes on the continent, and here they count as slums.

Local officials have dubbed it the "malaise Creole", because the marginalisation mainly affects descendants of the black Africans brought by 17th century Dutch settlers to harvest tobacco, ebony and ambergris on what had been uninhabited islands.

On their heels came wave upon wave of arrivals: Indian convicts, pirates, aristocratic French administrators, Chinese traders and in the early 19th century, the British who abolished slavery and shipped in thousands of Indian labourers to work the sugar plantations.

The result was the exotic hotch-potch that is modern-day Mauritius.

The official language is English, but French is far more widespread, and Creole the real lingua franca. Hindu temples and Mosques compete for attention with Catholic churches. British soccer matches, beamed in on Sky television, attract the same kind of religious fervour as the Tamil processions.

Until now, the multicultural medley has been extraordinarily harmonious.

But that system is based on ruthless exclusivity. Academic standards are set so



A demonstrator protesting at the death of a student shouts slogans outside Nairobi's secret police HQ yesterday

Kenyan students protest over death

Hundreds of Nairobi University students took to the streets yesterday in a second day of protest at the mysterious death of a student leader, Reuter reports from Nairobi.

Witnesses said riot police ringed off the main university campus in a bid to forestall riots which started late on Sunday, when students stoned cars on the city's main highway.

Groups of students peacefully marched through the city centre singing solemn songs in memory of Mr Solomon Muruli, who died in an explosion and fire early on Sunday.

"We want justice," the students chanted as they converged on President Daniel arap Moi's office, national police headquarters and the parliament building.

Officials at Nairobi University, Kenya's biggest, suspended all teaching and other campus activities.

KTN commercial television quoted a security officer as saying there was an explosion in Mr Muruli's room followed by a fire. There were no other victims.

Mr Muruli, a fourth year education student, had said he received death threats last week. He said he was kidnapped by police in November after complaining about conditions at the university, beaten and dumped in a churchyard.

Police denied Mr Muruli's allegations. Senior police officers declined comment about the student protest.

Harmony of Mauritius is under threat

Michela Wrong reports on the increasing polarisation of an exotic hotch-potch of peoples

Situated on the outskirts of Mauritius's capital Port Louis, the districts of Roche Bois and Sainte Croix stand in colourful contrast to the gleaming tower blocks of the city centre.

Car wrecks lie rusting, dreadlocked youths lounge at street corners, washing is draped across hedges to dry. But the brightly-painted houses have both electricity and running water, television aerials sprout from rooftops and garbage is regularly collected.

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Until now, the multicultural medley has been extraordinarily harmonious.

But that system is based on ruthless exclusivity. Academic standards are set so

high that of the 25,000 children who start attending school each year, only 50 per cent will qualify for secondary education. And only 5,000 of those still at school at that stage stay to take their higher school certificates at the age of 16. "The system is too academic and there's no opportunity for remedial tutoring," says Ms Mariam Gopaul, Unicef's

and bored. Recent Unicef studies show a worrying rise in child prostitution in deprived areas.

And the malaise looks likely to worsen. For Mauritius, which has based its wealth on textiles, sugar and tourism since the 1980s, is entering a new era. As protectionist trade deals approach expiry, emphasis is shifting to more sophisticated industries: information technology, financial services, printing and publishing.

White-collar skills will become ever more vital, putting those who fall through the education system at an ever greater disadvantage.

Simultaneously, economic analysts warn that if Mauritius is to remain competitive internationally, it will have to consider trimming a welfare system that ensures life for the country's also-rans remains tolerable.

"We're still frozen in a time capsule of free medical care, subsidised food prices, housing and public transport, stuck in the ideology of Britain's Harold Wilson era," says a financial expert.

"There are going to have to be major changes."

But while away at those benefits, and the racial harmony that makes Mauritius's such a remarkable success story carries risks. An incident last year when Muslim youths threw stones at police and set fire to cars - trivial by the standards of many of Africa's violent cities, excepting for Mauritius - was a worrying sign of what could lie ahead.

Aid organisations want to see a fundamental restructuring of the education system and would like private enterprise to start filling the education system at an ever greater disadvantage.

"The current picture is quite gloomy," says Ms Gopaul. "The gap between rich and poor is widening at a dangerous rate. Mauritius' only resource is its people, so we are piling up problems for the future."

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Why we chose inflation

Uzbekistan's new prime minister tells Charles Clover why his country printed money instead of following IMF advice

By Charles Clover
in Tashkent

Central Asia has a history of being told what to produce by foreign economists. In Soviet times, Moscow-based central planners set targets for production of goods such as alumina, natural gas, and cotton. Today it is economists in Washington and London who set the output targets, though this time for a uniquely capitalist commodity: money.

Uzbekistan is the most visible example of this new trend. Over the past few months, excess money has fed inflation, which has led the IMF and World Bank to withhold about \$100m of previously planned official credits tied to macro-economic targets which Uzbekistan could meet.

This money, though trivial in comparison to annual hard currency flows of about \$4bn, is nevertheless important as an indication of endorsement of Uzbekistan's

policies by the international community.

In the fourth quarter of 1996, according to figures released by the central bank, the Uzbek base money supply grew by 70 per cent, resulting partially from soft credits issued by the central bank intended for the cotton industry. Inflation during the fourth quarter was 30 per cent, while total inflation for the previous three quarters was 25 per cent. Target inflation for 1996 was 30-40 per cent.

The money supply growth has also hit currency markets. Since October, the Uzbek soum has lost more than half its value on the black market, and licences to buy hard currency at the official rate have been rationed.

In the face of these problems, however, Mr Utkur Soltanov, Uzbekistan's progressive new prime minister candidly defends his country's monetary policy. "Over five years of the existence of

prices by shrinking the money supply. He suggested selling treasury bonds and taking revenue from the sale out of circulation, similar to open market operations, a technique which many central banks use to regulate the money supply.

Many seem to think that we didn't understand monetary policy, that it was some capricious act of our bank. That is not so. We had to choose. Either we do nothing and lose our cotton sector, or we sacrifice some inflation."

The point was reiterated by Dr Rustam Azimov, chairman of the National Bank of Uzbekistan: "We could have been idealistic and defended our currency, or we could have been pragmatic and defended our industry."

Uzbek policymakers argue that because of their pragmatic outlook, they can boast the best industrial production performance of any CIS country since 1991.

Mr Soltanov suggested that rather than accept price increases and allow the currency to float, his government would rather roll back

prices by shrinking the money supply. He suggested selling treasury bonds and taking revenue from the sale out of circulation, similar to open market operations, a technique which many central banks use to regulate the money supply.

With little access to private tuition, expensive private schools and little of the traditional Indian or Chinese obsession with educational qualifications, the Creoles - accounting for around 30 per cent of the population - fare particularly badly.

Thanks to the extended family, dropouts rarely end up on the street. But they are doomed to illiteracy, alcoholism, unemployment and boredom. Recent Unicef studies show a worrying rise in child prostitution in deprived areas.

But everyone knows that some members of the 1.1m population have emerged without significant stakes. "The Indians have political power, the whites have the sugar estates and land and the Chinese are into trading and property," says Ms Mariam Gopaul, Unicef's

and bored. Recent Unicef studies show a worrying rise in child prostitution in deprived areas.

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By John Moseley

The International Fund for Agriculture and Development, the United Nations agency that provides development assistance to small farmers, has won agreement on replenishment of its funds after five years of negotiations.

It will receive about \$455m for its next three years' work.

During the negotiations 11 western countries made it clear that their contributions would depend on changing the fund's voting system to give more power to the bigger contributors and more seats on the executive board.

About \$365m of the total will come from industrialised countries in the Organisation for Co-operation and Development, nearly \$50m from Opec member states and \$36m from non-oil developing countries.

The negotiations, which should have been completed in 1992, were held up by the reluctance of donors to make firm commitments and by disputes over how much each should pay.

Three groups, the OECD, Opec and the non-oil developing countries have traditionally each held 600 votes in the Ibad governing council.

The new voting system will give larger donors more votes.

The US, which until this year was Ibad's largest donor will now have 185 votes out of 1,800, followed by Saudi Arabia with 133. Britain will have 38 votes. Under the new system, developing countries and Opec together will still hold a majority.

The composition of the fund's executive board will also change to give Opec members more seats.

Mr Fawzi al-Sultan, Ibad's

president, said the fund was also looking to improve its investment performance by diversifying away from the government bonds it has traditionally held.

With the five-year delay in replenishing its funds, most of the money that Ibad has recently loaned for projects has come from its investments and repayments of past loans. In 1996, the fund committed \$435m to 33 projects. Its replenishment last week means that it will be able to continue lending at about this level.

Ibad was originally given \$1bn for three years work but its funds have since been savagely cut by donors. In Ibad's last replenishment in 1990, the US gave \$32m. Last week it offered \$30m. Japan is now the largest donor with \$60m. In total, Ibad has committed nearly \$5bn to over 450 projects, mostly interest-free.

NEWS: ASIA-PACIFIC



Sad onlookers (left and right) stare at the funeral cortege carrying Deng Xiaoping through Beijing yesterday (centre left); and grieving family members wall over his body

Deng cremated in cemetery for heroes

By Tony Walker in Beijing

Mrs Madeleine Albright, the US secretary of state, said yesterday her brief visit to Beijing had achieved its objective by identifying an "agenda" for the coming year. Her visit coincided with the cremation of Deng Xiaoping, China's paramount leader, at the Babaoshan cemetery for revolutionary heroes west of the city.

China's top leadership paid its last respects to Deng, who died

aged 92 last week. He lay in state in a military hospital before being transported to Babaoshan. Thousands of mourners lined the road to the cemetery.

Deng's chosen successor, President Jiang Zemin, who is also Communist party head, was among the Chinese leaders who bowed the traditional three times before his body as they paid their final respects. Deng's family, in keeping with his wishes, had requested no such bowing be done.

Mrs Albright, in China on the last leg of a global tour, said her talks covered weapons proliferation, trade, Korea, Taiwan, Hong Kong and human rights. "We identified areas of co-operation and areas where there are differences and steps needed to resolve problems," she said after meeting China's top leaders.

She had expressed a strong US commitment to human rights and voiced concerns about Chinese human rights abuses. "I said I

would tell it like it is and I told it like it is," she said.

Mrs Albright said the US planned go ahead with support for a resolution censuring China at the forthcoming UN human rights conference. But the visit appears to have been conducted in a relatively harmonious atmosphere.

The US official said both sides had agreed on the desirability of China joining the World Trade Organisation. She had also pressed the Chinese on improved market

access for US products in light of an escalating trade deficit which stood at about \$40bn last year.

"I spoke about the importance of becoming part of the international community and the steps needed to achieve that," Mrs Albright said. She had also called on China's to ensure a "smooth transition" for Hong Kong's return to Chinese sovereignty and expressed US support for Taiwan's security.

Picking up Deng's baton, Page 16

North Korea loses third man in leadership

Defection, dismissal and death mark shift of power to a new generation, reports John Burton

The death by heart attack of Choe Hwang, the North Korean defence minister, has robbed the country of its third senior official in two weeks, following the dismissal of its prime minister and the defection of a top ideologue.

The funeral today of Marshal Choe, 78, comes amid what appears to be a generational shift in the North Korean leadership as Mr Kim Jong-il, the son of the country's founder Kim Il-sung, prepares to assume the presidency and leadership of the ruling monolithic Workers' party later this year.

The old revolutionary guard, which supported the idea of *juche* (national self-reliance), appears to be in the process of being eased out in favour of a new generation of

technocrats that supports a gradual opening of the isolated country to solve its severe economic problems and food shortage.

Some analysts believe that Mr Kim Jong-il has refused to take formal power since his father's death in 1994 until he completes the delicate transfer of key posts from "reds" to "experts". North Korean politics has always been marked by a "gradual" transfer of power, according to Mr Yang Sung-chul, a South Korean MP who has written extensively on North Korea.

Speculation is focused on who will succeed Marshal Choe, who ranked sixth in North Korea's hierarchy and was considered a hard-liner. The military is considered crucial in assuring the transfer of

power to Mr Kim, who is believed to have been criticised by some of the old guard for lacking his father's ability to lead the nation.

Mr Kim has spent a lot of time cultivating the army, over which he has acquired official control, by making most of his public appearances in military contexts.

He appointed Marshal Choe as defence minister to succeed Marshal O Jin U, another old guard leader, who died of cancer in 1995. But he has also promoted several younger generals who emphasise professionalism rather than ideology in the military, while giving several vice-marsals a greater role in political affairs.

With the first generation rapidly dying out or ill, Mr Kim appears

finally to have the opportunity to complete the reorganisation of the leadership in his image.

Marshal Choe's funeral committee, which is a key indicator of the political hierarchy, revealed that a third of the top 30 positions have changed hands recently, with key military officials ascending the pecking order.

Marshal Choe died on Friday, the same day it was announced that Mr Kang Song-san, who ranked fifth in North Korea's hierarchy, had been dismissed from the administrative post of prime minister because of illness.

Other figures that could soon be replaced include Mr Park Song-chol and Mr Kim's uncle Kim Yong-ju, both vice-presidents, who rank

third and fourth in the hierarchy. But the problems Mr Kim has encountered in his gradual purge were underscored with the recent defection to the South Korean embassy in Beijing of Mr Hwang Kyu-wo, who was instrumental in developing the *juche* ideology.

Analysts initially thought his defection was linked to a power struggle between hardliners and moderates, of which he was believed to be one. Letters he wrote to the South Korean government bitterly criticised Mr Kim and complained about the growing influence of the military.

But there is a suspicion that the letters were written to win favour with Seoul and that he resented being shunted aside by Mr Kim.

PNG may use mercenaries

Relations between Australia and Papua New Guinea became increasingly strained yesterday, in the wake of reports PNG was planning to use mercenaries in a military operation against secessionist rebels on the strife-torn island of Bougainville. Mr John Howard, Australia's prime minister, said he had told Sir Julius Chan, his Papua New Guinea counterpart, last week of Australia's dismay at any such move. "Any use of mercenaries would be absolutely and completely unacceptable," he said.

Sir Julius called the reports inaccurate. He said the government had simply hired a UK-based group to provide military training and logistical support for PNG defence forces. Although PNG has been independent for over 20 years, the financially troubled country still receives around \$330m (US\$250m) a year in aid funds from its larger neighbour.

Nikki Tait, Sydney

Government demands its cut of Cambodia's falling trees

Cambodia: Economic Indicators

| | 1992 | 1993 | 1994 | 1995 | 1996(E) |
|---|-------|-------|-------|----------|----------|
| Real GDP growth (%) | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Inflation (%) | 76.5 | 114.3 | 28.1 | 9.1 | 15.0 |
| Exports (US\$bn) | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Imports (US\$bn) | 44.3 | 47.1 | 74.5 | 1,188.8 | 1,188.8 |
| Current account balance (US\$bn) | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Trade balance (US\$bn) | -44.2 | -47.0 | -74.4 | -1,188.7 | -1,188.7 |
| Source: EU | | | | | |
| EU or official estimates. (E) including re-exports. (D) including non-resident imports. | | | | | |

A ox-carts laden with timber and logs stream out of the mountains of Cambodia's first national park, a group of environmental officials and foreign consultants are negotiating with a military commander to allow them to camp overnight to survey the area.

Eventually two soldiers, leaving shoulder-mounted rocket launchers to one side but keeping their AK-47s at ready, are dispatched to accompany the group.

Kirin National Park is but a blip on the radar screen in Cambodia's immense struggle with devastating logging practices fuelled by corruption, political competition and military dominance over rural areas.

Yet as an International Monetary Fund mission arrives to jump-start a \$120m funding programme suspended last year largely because the Cambodian government has been unable to curtail unsustainable logging, the park has become a symbol of Cambodia's effort to win back favour from international donors.

The IMF says it is interested in the logging issue not for environmental reasons but because budgetary transparency combined with a sustainable logging policy could raise tax revenue of \$100m annually (about 3 per cent of gross domestic product) in a country which depends on foreign aid for 40 per cent of its budget.

Similar drastic actions have been taken nationally. At the request of the Cambodian authorities, Thailand has shut the border between

the two countries to log exports, stranding millions of dollars worth of logs in Phnom Penh. "It is critical that the government persevere in these efforts to ensure the success of their economic programme."

The head of one donor organisation predicts the Cambodians will reach a preliminary agreement with the IMF mission but will have to keep the border with Thailand open.

Meanwhile, the military continues to rely on logs for its own funding. Last year Cambodia's two prime ministers, under the pretence of an impending offensive against the Khmer Rouge, gave the military permission to sell 30,000 cu m of logs to a Thai company. The treasury was not informed of the deal.

As Cambodia's two ruling political parties fight for loyalty, often bought, before national elections next year, the difficulties of implementing a strict logging policy will intensify, says Mr Sun.

"Cleaning up the logging issue requires rules, regulations and implementation of the law rather than a policy based on personal connections. That's difficult to do so close to an election year and with so much tension between the two political parties," he says.

Japan insurance price cartels axed

By Michiyo Nakamoto in Tokyo

The Japanese non-life insurance industry's rate-setting bodies are to be abolished. Rating associations, which have long determined industry-wide premium rates for specific risks, have been criticised as a form of cartel that has let non-life companies maintain high rates and prevent competition.

The development highlights the rising momentum of liberalisation in insurance, which is expected to lead to restructuring of Japan's highly protected non-life sector.

The Marine Insurance Association, which sets rates for marine insurance, will be disbanded before April, and the Machinery Insurance Rating Association will be scrapped before March 1998. The move follows agreement by Japan in the US-Japan

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Intelligence services are reprimanded for failing to guard against 'continuing activity'

MPs warn of threat from Russian spies

By David Wighton,
Political Correspondent

The intelligence services are not doing enough to guard against potential penetration by Russian agents, a committee of the House of Commons warned yesterday.

The MPs said that MI5, MI6 and GCHQ were under "continuing threat from the activities of the Russian intelligence services" and needed to strengthen their own security defences. MI5 is the domestic security service, MI6 is the intelligence service which operates outside Britain and GCHQ the UK

government communications headquarters.

Mr Tom King, chairman of the Commons intelligence and security committee, said there was "absolutely no evidence" that there was a traitor working with the British intelligence services. But the case of Aldrich Ames, the CIA officer exposed as a long-term Russian spy three years ago, underlined the importance of effective security.

The committee said that money, rather than ideology, was the principal motivation of an increasing number of agents. It recommended that the intelligence services keep

very careful watch on changes in the financial circumstances of their staff. The agencies told the committee that vetting clearance of a number of employees had been withdrawn in the last few years because of financial problems and chronic indebtedness.

Salary levels within intelligence services were not a problem in terms of the temptation to betray secrets, Mr King said. However, the committee reported that GCHQ has been forced to increase salaries to combat a "critical shortage" of IT experts and project engineers.

Mr John Gilbert, a Labour mem-

ber of the committee, said the biggest danger was of intelligence staff betraying secrets not for financial gain or ideological commitment but out of "personal spite and revenge".

He said a particularly difficult case to prevent would be a disgruntled member of staff putting information on the Internet for no personal gain. The special problems posed by the Internet were likely to be considered by the committee in future.

The committee's second annual report on the services, sent to the prime minister in December,

makes no recommendations on funding, which it examined with the help of the National Audit Office.

The report shows total spending on the three agencies falling from £850m (£1.35bn) in 1994-95 to £700m in 1997-98, reflecting the costs of moving MI5 and MI6 into their new buildings. But the figure rises to £716m in 1998-99.

The committee also provided the prime minister with a separate report on the agencies' work in protecting the UK's economic interest, including action against industrial espionage.

Exclusive bank services enjoy a renaissance

Private banking, a term redolent of an old world of aristocrats and frock-coated messengers, is enjoying a renaissance. Such banking offers wealthy clients personal banking, investment management, tax and trust planning under one roof.

"It is a hot topic," says Mr Herschel Post, chief executive of Coutts, one of the NatWest group, which announces its results today.

"You can see that by the number of new entrants trying to get into the business."

Coutts' results are expected to be depressed by restructuring charges. But the figures will belie the good health of the UK private banking industry. A better indicator is the flurry of new private banking services launched in the market.

Last week, the UK law firm Cripps Harries Hall announced a tie-up with US bank Citibank to offer a "private office" with banking products provided by the US operator. Next month, financial services group Secure Trust will, following its acquisition, relaunch its new private banks to cater for a niche market.

The Private Bank and Trust, established red carpet.

Established red carpet.

The Private Bank and Trust.



Polished approach: but Coutts faces increased competition

retail banks report record numbers of clients.

Coutts added 4,000 private clients last year to reach a record 34,000 customers. It expects record profits in 1997. Royal Bank of Scotland's three private banks - Chilids, Drummonds, and Adam - Lloyds and Midland private banks are also thriving.

Their client lists have been swollen by the growing number of affluent professionals. The Inland Revenue estimates that 600,000 UK residents earn more than £50,000 (£51,000) a year. This number rose by 55,000 in the past two years alone. About 140,000 earn more than £100,000 a year.

Traditionally, this high income end of the retail market was ignored by international private banks, such as Citibank Private Bank, which sees clients with at least \$1m to invest.

But the domestic oligopoly is under threat. Merchant banks, law firms and other financial institutions are trying to make inroads into high income private banking. Some groups have set up new private banks to cater for a niche market.

Coutts is relaxed about the challenge from small new private banks. Mr Post

believes a private bank needs a "critical mass" of clients to be profitable.

"You cannot make a good business out of 500 clients earning £100,000," he says.

But professional firms and merchant banks do represent a big threat, he says.

"Any one of the traditional financial suppliers could become the lead."

Coutts' strategy is the mirror image of Kleinwort's - adding more sophisticated investment management to the "upscale retail bank".

"We need to be as competent in investment management as Mercury Asset Management or Cazenove," says Mr Post.

Philip Stephens, Page 16

70% of Asians to vote Labour, says survey

By Liam Halligan,
Political Staff

The opposition Labour party enjoys greater support among the UK's south Asian community than it did at the last general election, according to a Mori-ZeeTV poll to be released today.

The survey suggests that the party will receive the vote of 70 per cent of the Indian, Pakistani and Bangladeshi community - up from 64 per cent in 1992 - countering government claims that upwardly mobile Asians are increasingly likely to vote Conservative.

The poll suggests that 25 per cent of voting Asians will favour the Conservatives, down from 31 per cent at the last election. With support for the centrist Liberal Democrats unchanged at 4 per cent.

Although Asians account for about 1.5 per cent of the electorate, their concentration in urban areas means they could hold the key to many marginal seats.

According to Mori-ZeeTV, there are now 45 seats in which the Asian voting population outweighs the margin of victory in the 1992 general election. The survey, conducted among more than 1,000 voters during the first 10 days of February, shows Labour support reaching 75 per cent among Pakistani and Bangladeshi voters - typically less wealthy than Indians.

But one Conservative MP said last night: "Given the overall swing in the national polls since the last election, one could argue that the Tory Asian vote has held up well."

More than 60 per cent of Asians felt immigration laws were "fair or not strict enough", countering Labour claims that the government has lost the ethnic vote because of tougher asylum laws. The survey shows that 71 per cent of Asians are "very likely or certain" to vote. But recent surveys by Operation Black Vote, a pressure group, predicted a turn-out of only 40 per cent among voters of African and Caribbean origin.

The Asian community's participation in national politics remains relatively insignificant. There are only three Asian MPs, although 36 Asian candidates are due to stand at the election.

Philip Stephens, Page 16

UK NEWS DIGEST

NI nationalists broaden fight

The moderate nationalist Social Democratic and Labour party is for the first time to contest all 18 Northern Ireland districts in the forthcoming British general election. Mr John Hume, the party leader, announced yesterday the move amounts to a further rebuff to calls from Sinn Féin, the political wing of the Irish Republican Army, for an electoral pact to maximise nationalist representation. Mr Hume, whose party now has four MPs in the House of Commons in London, said there was "no question" of an electoral pact while IRA violence continued. Mr Pat Doherty, vice-president of Sinn Féin, predicted after Mr Hume's announcement that Mr Gerry Adams, Sinn Féin president, would defeat the SDLP in the West Belfast district.

Meanwhile, Mr Bertie Ahern, leader of Fianna Fail, the biggest Irish opposition party, last night called on Mr Adams to address seriously how to rebuild peace and trust. He told a Belfast meeting also involving Sinn Féin and the SDLP that the opportunity for peace provided ahead of the collapse of the IRA ceasefire had been "badly mishandled by the British government".

Mr Neil Kinnock, European Union transport commissioner, called in Belfast yesterday for a restoration of the IRA ceasefire, which ended just over a year ago. "It is not only in the interest of the people of Northern Ireland, but in the wider interest that this part of the EU can progress in security towards the opportunity and employment that the people here need," Mr Kinnock, a former leader of the UK Labour party, said at the opening of an EU information centre in Belfast.

John Murray Brown

COMPANY DIRECTORS

Steep increase in number of bans

The number of directors banned or disqualified from running limited companies rose by nearly half in 1996, government figures showed yesterday. Last year 945 directors were disqualified as unfit, up from 633 in 1995, while actions were started against 1,376 - 20 per cent more than the year before. Of those, 273 were banned by the courts from running companies for a range of offences including embezzlement and dishonest accounting.

Mr John Taylor, corporate affairs minister, said the rise was partly due to new reporting standards, introduced last September, which make it easier for insolvency accountants to identify and report misconduct.

MANCHESTER AIRPORT

Tram link wins approval

Manchester airport, which last month won approval for a second runway, should have a direct tram link with the centre of the northern city by 2003 following the government's decision yesterday to approve the plan. The 22km extension to the city's tram network is expected to cost about £145m (£224m) and carry 5m passengers a year. City officials believe it will account for a quarter of all journeys to the airport by travellers and employees by 2005.

Responsibility for managing the network will transfer next month to a consortium consisting of Serco, a traffic management group; Laing Civil Engineering; and Ansaldi, an Italian transport company. Approval of the airport link confirms the revival of tram systems. Projects are under way in Birmingham, England's second biggest city, and in Croydon, south London. Charles Batchelor

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NEWS: UK

Minister orders investigation of 'deficiencies' in rules dating back to 1890

Partnership law to be reformed

By Jim Kelly,
Accountancy Correspondent

The government yesterday ordered a wide-ranging review of the century-old law of partnership which could eventually lead to fundamental reforms affecting 600,000 businesses. The law dates back to the Partnership Act of 1890 and the Limited Partnership Act of 1907.

Mr John Taylor, corporate and consumer affairs minister, has asked the Law Commission and the Scottish Law Commission to look at "perceived deficiencies" in the legislation. Mrs Justice Arden, the judge who chairs the Law Commission, said: "There is a need for the law of partnership to be reviewed." The announcement follows last week's

government decision to help limit the legal risks faced by partnership by allowing them the option to set up as limited liability partnerships (LLPs).

Progress will be monitored by professions whose members operate in partnerships, such as accountants, surveyors, architects, actuaries and solicitors. "Partnership law is by and large a century old, and the time is well past for it to be brought up to date," said Mr Graham Ward of the Institute of Chartered Accountants.

Latest figures show that, of the 600,000 partnerships in the UK, about 52 per cent have a turnover of less than £100,000 (£162,000).

Miss Diana Faber of the Law Commission said: "This is designed to modernise the law for modern

business needs. It could assist as many, if not more, small businesses than company law reform."

A study of company law and private companies in 1994 revealed many problems with the old partnership laws. The problems are aggravated by the fact that many small businesses are unaware of their legal status. "Many do not realise they are legally partnerships – so they do not have agreements to deal with the consequences," said the report.

One consequence of not having a proper partnership agreement is that a perfectly viable business might have to be wound up, and its assets divided, on the death or retirement of one of the partners. But the assets of the firm and the negligent partners are still at risk.

partnerships to provide security for loans. Also, unlike companies, if the partners do not have a formal agreement there is no "default" agreement provided by the law.

"The Law Commission will consider, among other issues, whether provision of a statutory model partnership agreement would be of assistance," said a government official.

The study will also look at the new proposed LLP legislation and see if it might be made available to a much wider range of businesses.

Under an LLP, partners are able to protect their personal assets from legal actions brought about by the negligence of their fellow partners. But the assets of the firm and the negligent partners are still at risk.

Construction feast threatens indigestion

Industry chiefs fear the sector may not have the capacity to cope with projected demand of \$54bn

Leaders of the construction industry, still worrying about a lack of investment in UK infrastructure, may soon be faced with too much work rather than too little.

The sector is poised to move from famine to feast, placing serious strain on its capacity to meet demand, according to a government and industry sponsored study by Gardiner & Theobald, the international cost consultancy.

It has identified more than 400 projects, each worth £30m (£48.6m) or more, likely to go ahead during the next five years. These are expected to generate at least £33bn (£48bn) of work, at 1990 prices, over the next three years alone.

The consultants say a similar study conducted at the end of the 1980s would have shown big projects contributing only £23.5bn in the three years to 1990, some 12 per cent less than forecast for the next three years.

Demand this time will be fuelled by growing inward investment, millennium projects, funds generated by the National Lottery and the government's private finance initiative, which is

intended to attract private funding to public projects. Infrastructure projects already approved under the PFI include the high-speed rail link from London to the Channel tunnel and the modernisation of the West Coast Main Line between London and Scotland with a combined cost of £4.3bn.

Any increase in activity will be welcome to building industry leaders, who yesterday launched a campaign emphasising the need to increase construction spending. Investment in construction as a proportion of gross domestic product has risen from 10 per cent to 8 per

cent since 1990, compared with a European average of 12 per cent, says the Construction Industry Liaison Group, which represents the leading employers' organisations in the sector.

Gardiner & Theobald argue that the approach of the millennium is likely to lead to a bunching in construction work as politicians, private sector developers, industry and commerce rush to complete projects by the year 2000.

Commercial and industrial building, following a dearth of development in the early and mid 1990s, is also expected to rise sharply.

A lack of big areas of modern office space in central London is already encouraging developers to contemplate starting schemes. These include a new 52,200 sq m headquarters for Citibank in London's Docklands.

The biggest demand is being generated in Greater London and south-east England, which accounts for two-thirds of the £3.5bn of commercial work identified by the consultants.

The Construction Procurement Group, established in 1994 by the industry and government to maximise

domestic content in British construction, is concerned that imports could be sucked in because domestic suppliers are unable to meet demand or they have raised their prices too high.

Last year's modest aggregate price rises, when volume sales were tumbling, illustrate the ability of producers to increase prices in sectors where competition is dominated by a handful of big domestic suppliers.

The industry finds it harder to raise prices where there is international competition, such as in the steel sector.

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Burgundy

Outstanding transport links have helped to attract widely diversified manufacturing industries to a region more often associated with gastronomic delights. David Buchan reports

There's so much more than wine

The president of Burgundy's regional council admits to having one big problem: It is, says Mr Jean-François Bazin, "to reinvent a technical, dynamic image for the province, which has traditionally had one of gastronomy and wine". The journalist-turned-gaullist politician admits he has, in a small way, contributed to the problem by writing extensively on Burgundy wine himself.

Burgundy's "image problem" is, of course, a bit exaggerated. First, because most Burgundians, quite naturally, love having their region associated with the good things of life that also provide manufacturing jobs in growing, bottling, packing wine, in the food industry and in tourism. Second, because as Mr Bazin is the first to point out - Burgundy has a widely-diversified manufacturing base which gives it a bigger share of industrial jobs (23.4 per cent) than the national average (19.7 per cent), and in services it has a fast-growing transport sector.

However, many Burgundians seem to see fewer reasons for complacency than outsiders do. They feel the pull of being between France's two biggest economic magnets, Paris and Lyon. This is strongest at the two extremes - Sens in the north-west and Mâcon in the south-east. The leaders of both towns say they feel Burgundian, and Mr Jean Cordillot, the communist

mayor of Sens, insists on calling it Sens-en-Bourgogne. But no fewer than 4,000 of its inhabitants commute into Paris every day, while banks in Mâcon tend to answer to their offices in Lyons rather than Dijon.

Burgundy has its share of national politicians. Mr Dominique Perben, the civil service minister, is mayor of Chalon-sur-Saône, while Mr Jean-Pierre Soisson, the wily centrist mayor of Auxerre, was a minister in the last socialist government and might yet make it into the current right-wing one.

However, few national companies have their headquarters in Burgundy (the Fournier pharmaceuticals group is a rare exception).

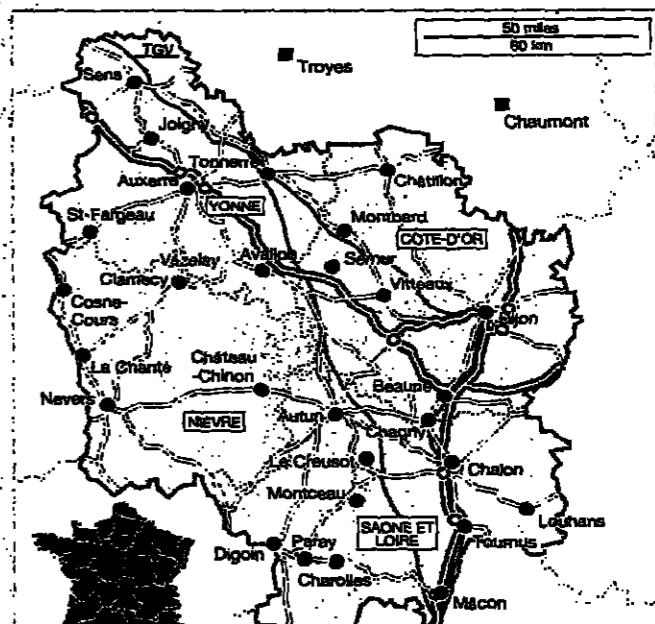
This makes its inhabitants feel vulnerable to decisions taken elsewhere. This feeling was powerfully reinforced by the Renault car company, which has been faced with the problem of what to do with the large number of garages it still owns in depopulated areas. Renault has allowed its garage workers to do other jobs in part-time farming or running bed-and-breakfast accommodation for tourists. In return, the regional council has offered the workers zero-rate loans to develop these secondary activities. "We could perhaps do the same with village food shops, or even La Poste," says Mr Bazin.

In the event, "social dumping" has since proved to be more a term of political abuse than a description of economic reality. But the incident left scars, as well as the beneficial effect of making the region's development agencies hyper-attentive to the needs and wishes of outside investors.

The task of such agencies is complicated by the uneven spread of people and jobs. These are heavily concentrated in the eastern parts of the Côte d'Or and Saône et Loire départements along the Dijon-Mâcon corridor; in another corridor, from Auxerre to Sens in the Yonne département; around Nevers, in the département of La Nièvre; in old industrial pockets, in places like Le Creusot and Monceau-les-Mines. But right in the middle of this is the empty quarter of the wild and beautiful Morvan national park. No fewer than 48 communes in and around it have a population averaging fewer than 20 per square kilometre.

To help stem the drift off the land, Mr Bazin has struck a novel deal with the Renault car company, which has been faced with the problem of what to do with the large number of garages it still owns in depopulated areas. Renault has allowed its garage workers to do other jobs in part-time farming or running bed-and-breakfast accommodation for tourists. In return, the regional council has offered the workers zero-rate loans to develop these secondary activities. "We could perhaps do the same with village food shops, or even La Poste," says Mr Bazin.

The owners of Burgundy's famous white Charolais beef cattle have also had to weather the impact of the



| | Côte d'Or | Nièvre | Saône et Loire | Yonne | Burgundy | France |
|------------------|-----------|---------|----------------|---------|-----------|------------|
| Population | 505,000 | 226,000 | 548,700 | 330,000 | 1,216,000 | 51,000,000 |
| People per sq km | 58 | 33 | 64 | 45 | 81 | 107 |
| Employment (%) | 5.6 | 5.6 | 7.6 | 8.2 | 7.2 | 4.8 |
| Industry | 18.1 | 21.2 | 27.0 | 23.0 | 22.4 | 19.7 |
| Construction | 6.4 | 6.4 | 6.4 | 6.8 | 6.5 | 6.5 |
| Services | 59.9 | 62.6 | 58.7 | 51.8 | 63.8 | 68.0 |
| Unemployment (%) | 11.4 | 11.7 | 11.9 | 12.0 | 11.7 | 12.7 |

Source: INSEE

recession hit in the early 1990s. Now it is regarded as an essential form of spreading risk, as well as creating the jobs that seem to come mostly from small companies.

The US retains its presence through Kodak, which is the biggest employer, with 3,000 on the payroll, at Chalon. But more Germans and Italians are moving in. Mrs Tina Schneider, finance director at Ravensburger, the German puzzle maker, says her company toyed with the idea of building a second plant in Alsace or going to Franche-Comté, but decided on Chalon. Transport links are excellent, she says, and "the people are hard working and serious. Burgundy is still the north, but with good wine".

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INDUSTRY • by David Buchan

Solid foundations are built on steel

Ancient and modern stand side by side to provide diverse employment

The double surprise with Burgundy is that it is not only more industrial than its bucolic image suggests - nearly one in four works in manufacturing, above average for France - but also that some of its industrial areas have long histories.

From 1886, the Schneider family built an empire at Le Creusot on the classic combination of steel and coal that employed thousands of people until its Creusot-Loire group went out of business in 1984. Fortunately, other smaller companies came in to pick up the pieces; in the past 10 years, according to Mr Alain Monhet, of the Communauté Urbaine de Creusot-Monceau, 154 companies have invested locally, creating or recreating more than 3,000 jobs.

Heavy industry is still alive and well in Le Creusot, as a visit around the GEC Alsthom factory shows, with its 850 employees casting, welding and polishing the bogies on which today's TGV trains ride, as well as the slower coaches of the Paris Metro and the London Underground.

But Burgundy now has a very diversified manufacturing base. In addition to Alcatel Alsthom and what is now the Schneider group, other big names and big employers in the region include Usinor (steel), Thomson (electronics), Framatome (nuclear reactor vessels), Kodak (photographic film), Saint-Gobain (glass), Sara Lee, through its DIM subsidiary in Autun, (textiles), Fournier (pharmaceuticals), and Peugeot, Valeo, Iveco and Michelin in cars, trucks and tyres.

Again, much of the region's modern development has an ancient base. Take the little town of Imphy, near Nevers, where metal has been made for some 400 years. It is built around the company of Imphy SA, which changed hands in 1987 from Creusot-Loire to Usinor.

Imphy provided some of the steel that went into the Paris tower built by Gustave Eiffel; himself a Burgundian; but as Imphy director Mr Jean Didier admits, "many French companies can make that claim".

More relevant to its success is a speciality that started 100 years ago when a Swiss metallurgist asked

Imphy to supply the 84 per cent of iron and 36 per cent of nickel that he combined into invar - an alloy so called because it is relatively invariable in heat or cold.

Today, Imphy has 1,280 staff, making it the largest industrial employer in the Nièvre, with sales of FF1.8bn, and nearly double that if its German and US subsidiaries are included. It has a 100-strong research team working on discovering new materials and improving old ones. Transport, a problem for some Nivernais companies, does not hamper Imphy, which brings in raw materials by rail and ships out by road. It exports 65 to 70 per cent of its output.

Over on the other side of Burgundy, at Montbard, is DMV. The company, one of Imphy's stainless steel customers, is based in a town very similar to Imphy in size (population, 7,000) and in tradition. Montbardiens have been making steel since 1885.

This region's factories provide a great variety of equipment

many of them employed by Vallourec. The latter still employs 1,000 people in Montbard, under various names such as Valti and Vallonix.

In 1994 DMV joined forces with Dalmia, of Italy, and Mannesmann, of Germany, to form a joint venture in stainless steel tubes for the chemical, petrochemical and oil industries. It took the European Commission a year to approve such collaboration between three competitors, but eventually Brussels was persuaded that other Europeans, notably Sandvik, of Sweden, as well as Japanese companies, provided ample residual competition.

Today, DMV turns out 16,000 tonnes of tubes annually at Montbard, well over half the total DMV output, under the direction of Mr Maurizio Rota.

Transport links are perhaps particularly vital for those involved in managing such a multinational venture, and Montbard now has the good fortune to have a TGV stop. Mr Rota lists three other advantages of being in Burgundy: suppliers, such as Imphy, good subcontractors; and "wine that is even better than Italian wine".

The users of metal in Burgundy have provided some of the steel that went into the Paris tower built by Gustave Eiffel; himself a Burgundian; but as Imphy director Mr Jean Didier admits, "many French companies can make that claim".

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More relevant to its success

TECHNOLOGY

Researchers aim to extend protease inhibitors' success against Aids to other disorders, says Victoria Griffith

A cure in search of diseases

When news broke of a remarkable new Aids treatment last year, television presenters in the US repeatedly mispronounced the agent of the apparent miracle: protease inhibitors. The newscasters spoke the word "protease" with two syllables instead of the correct three.

But then few people had ever heard of the compounds. Months later, "protease" inhibitors are almost a household name, and the Aids success has extended life, not just for thousands of Aids patients, but also for a budding research area.

Thanks to the HIV breakthrough, protease inhibitors - which had fast been losing credibility - are now some of the hottest compounds in medical laboratories. "It is logical to think that if protease inhibitors work for Aids, they can work for other diseases," says David Molowa, a biotechnology analyst at Bear Stearns. "That is why we are seeing renewed interest."

Dozens of protease programmes are moving forward: Vertex is studying the substance class for hepatitis C; British Biotech is targeting the compounds for arthritis and cancer; Bayer is looking at inhibitors for asthma treatment; Merck is studying them for osteoporosis; Arris Pharmaceutical has dedicated itself com-

pletely to protease inhibitor research for illnesses including cardiovascular disease, anaemia and growth disorders. While most of these programmes were in place before the HIV announcement, some were in danger of being abandoned.

"We had seen at best spotty results after years of work and billions of dollars spent [on protease research]," says Michael Venuti, chief technical officer at California-based Arris Pharma-

Proteases are proteins that chop up other proteins, and inhibitors stop them slicing

ceutical. "It is natural that some of the programmes were being questioned." Before the HIV success, only one inhibitor had been approved for market: captopril, a drug for hypertension which is made by a number of companies. Captopril, however, was discovered by serendipity, and not through a protease inhibitor programme.

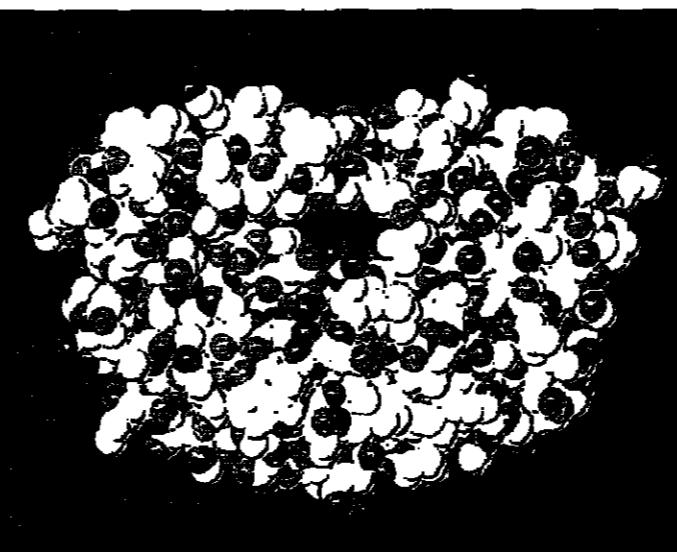
For decades, scientists considered proteases a nuisance in the laboratory, because they often destroyed the molecules that were being researched. Proteases

are simply proteins that chop up other proteins, and inhibitors are molecular plugs that stop the proteases from slicing. It was not until the early 1980s that researchers realised those microscopic knives might offer a strategy for treatment.

The search among the fledgling biotechnology community for smaller molecules, to provide oral rather than injectable drugs, sparked an interest in the field. Inhibitors are small enough to be taken in pill form. The structure of many proteases is known, and knowledge is quickly expanding. Vertex announced recently that it had discovered the three-dimensional structure for a vital hepatitis C protease, kicking off an important research programme for the disease.

Many scientists consider proteases a potential goldmine for medical treatments because they are involved in virtually every bodily function and dysfunction.

Yet protease inhibitors also have weaknesses when it comes to using them for treatment. Because many proteases are non-specific, it would be easy for an inhibitor to interfere with normal bodily functions: risks of toxicity are high. The danger may be particularly great for diseases caused by bodily dysfunction - cancer, asthma, or osteoporosis, for instance - rather than those



Science Photo Library
HIV protease computer graphics: protease inhibitors may treat many diseases

caused by an invader from the outside, such as HIV or hepatitis.

"A lot of diseases are caused when the delicate balance between proteases and other proteins goes wrong," says Charles Craik, a professor at the University of California at San Francisco. "But that balance may be difficult to reinstate in a precise way through protease inhibitors.

I think the most immediate applications may be in attacking the proteases of bacteria and viruses, which have no business being there in the first place, and are therefore more specific."

Analysts agree that the HIV example is most applicable to viral and bacterial illnesses. "Beyond that, the success of protease inhibitors in Aids may be inspirational, but won't offer many direct lessons," says Molowa of Bear Stearns.

Vertex Pharmaceuticals believes the similarity between HIV and hepatitis C may furnish important clues for protease treatment of the liver disease. "Hepatitis C affects liver cells in an extraordinarily similar way to

HIV," says Joshua Boger, chief executive of the group. "Hepatitis, like HIV, takes over the liver cells to reproduce itself. A critical protease is required to chop the protein in the cells. If you can't chop it up, the cell can't make a copy of itself." Vertex believes the similarities are so great that some of the HIV compounds may work on hepatitis.

While the success of the HIV drugs may have proved an inspiration, the treatments are not problem-free. For instance, they have to work in combination with other compounds in a complex drug "cocktail". Not all patients have benefited from protease inhibitors, and some who did are beginning to show signs of resistance to the drug.

Yet the HIV case remains important to scientists working in the protease field. "Many researchers saw this as a proof of the concept," says Boger of Vertex. "It may not be a perfect drug, but it has helped a lot of Aids sufferers. If protease inhibitors could work on Aids, I don't see any reason they can't work on other diseases."

Richard Tomkins on how a new pliers design took the US by storm

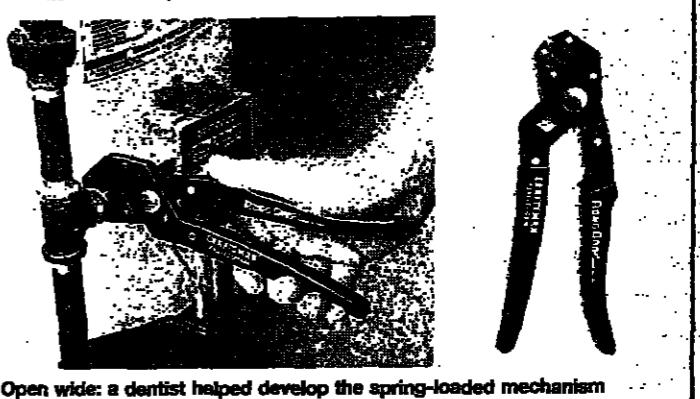
engineer from Butler, Pennsylvania, who became frustrated at the difficulty of setting his adjustable pliers.

Warheit decided to see if he could invent some self-adjusting pliers, and enlisted the support of Hal Wrigley, a local dentist. Eventually, they came up with a prototype and took it to Sears, which started marketing the pliers in its Craftsman Professional range of tools.

Andy Ginger, brand director for the range, says Robo Grip pliers have other advantages over conventional products. They are ergonomically designed to fit the shape of the hand; the jaws have precision-engineered teeth, making them grip better; and their laminated steel construction makes them much stronger than traditional pliers.

Ginger says sales of Robo Grip pliers as Christmas gifts took off after they were featured on television and in newspapers. But people have been buying them for themselves, too. "Most professionals, whatever they are doing, want a pair of these in their toolbox," Ginger says.

Robo Grip pliers come in a 7in size with straight or curved jaws and in a 9in size with straight, curved or V-notch jaws. Sears sells the smaller ones for \$19.99 and the larger ones for \$24.99. The pliers are manufactured by Applied Concepts, a subsidiary of Emerson Electric based in Warrendale, Pennsylvania.



Open wide: a dentist helped develop the spring-loaded mechanism

The lesson of the whale's tail

Damian Carrington reports on an alternative to the screw propeller

A propeller designed to operate like a swishing fin and inspired by the wiggle of a whale has come through its first sea trials, showing promise as a fuel-saving replacement for the conventional screw propeller.

Whales are superbly efficient swimmers, using a technique called thunniform motion. Unlike an eel, which snakes through the water, or a goldfish, which simply flaps its tail, the whale uses the last quarter of its body as a flexible bar that moves up and down to swish its tail fin.

But this is not only efficient -

the motion also taps free energy from passing waves. The swell causes the whale to heave and pitch, and this contributes to the swishing of its tail fin, providing up to one-third extra propulsive energy.

This free power source causes a dead whale to continue swimming at around one knot until it sinks.

For the propeller, which has

been developed by Glasgow University naval and mechanical engineers, the final quarter of the whale is replaced by a flexible bar fixed to the boat's stern, with a fin on the end. "We have shown efficiencies [the amount of propulsive energy achieved per energy input] up to 80 per cent, which looks attractive next to the 65 per cent efficiency of conventional screw

propellers," says Bob McGregor, head of the research team.

The sea trials in the Firth of Clyde followed the design's evolution from a patented Norwegian prototype, through computer modelling and hydrodynamic laboratory tests. Wave motion alone caused the swishing fin to propel the boat, and by powering the bar to oscillate, the device operates as a

replacement for the conventional propeller.

Lifetime-costing calculations suggest the swishing fin propeller holds most promise for smaller and slower craft, from pleasure boats to moderate-sized oil tankers. More power is provided by fins with larger surface areas, but this is limited by decreasing efficiency as they become less slender.

INTERNATIONAL PEOPLE

Deutsche Bahn's chief executive

The appointment of a senior civil servant to head the German railway system might appear odd, given that Deutsche Bahn is due to be exposed to competition and is destined one day for the private sector. But Johannes Ludewig, the man to follow Heinz Dürr, is no conventional bureaucrat.

The 51-year-old state secretary in the Bonn economics ministry is one of the prime movers and shakers of Chancellor Helmut Kohl's administration. A publicity-shy workaholic, he worked in the chancellery from 1983 to 1994, rising to become Kohl's economic adviser. A long-standing member of the German leader's Christian Democratic Union, Ludewig is part of Kohl's inner circle. Since 1991, Ludewig has been the government's economic trouble-shooter in eastern Germany, giving him ample insight into the problems of industry and the interaction of the public and private sectors.

He joins Deutsche Bahn's managing board in May. Ludewig will find an organisation already moving towards the private sector. The Bahn was relieved of its debt and given limited company status three years ago while remaining wholly owned by the federal government.

Under Heinz Dürr, who will move from chief executive to supervisory board chairman when Ludewig takes over, the railway has cut its staff by about a third and boosted sales to DM30bn, though it faces a tougher future because the government has decided to let competitors operate on its tracks. Peter Norman, Bonn

Spaventa joins Bankers Trust

Bankers Trust, the New York financial services group, has recruited Luigi Spaventa, a leading Italian left-wing economist and a former budget minister, to strengthen its Italian banking operations.

The appointment of Spaventa as president of the US group's Milan subsidiary, Bankers Trust Finanziaria, comes at a time when international investment banks are actively seeking to play a significant role in Italian privatisations,

and corporate restructuring. Spaventa will have responsibility for helping develop senior client relationships in Italy and implementing the group's global products strategy.

Spaventa, who has also been tipped as one of the possible candidates to head the Italian stock market watchdog Consob, was most recently chairman of an Italian investment fund arm of Deutsche Bank. He has been a member of the Italian parliament, first as a deputy of the old Communist Party and later sitting with the mixed independent left-wing parliamentary group. He was budget minister during 1993-94 in the government of Carlo Azeglio Ciampi. Paul Betts, Milan

First woman president at Recruit

Recruit, one of Japan's leading information services companies, is getting its first woman president, Elke Kono, in June. Kono, 51, joined in 1969 and became a board member in 1984, four years before the company was embroiled in the Recruit stocks-for-favours scandal. That imbroglio brought

down the government in 1989 and led to the resignation of the company's chairman and founder, Hiroshi Ezoe.

Along with Iiso Nakachi (who became chairman in 1992) Kono has been instrumental in assisting the current president, Naotaka Iida, rebuild Recruit's business; she was appointed vice president in mid-1994. The post-Ezoe management restructured the company's consumer credit subsidiaries and its real estate unit, Recruit Cosmos, which were burdened by bad loans.

Under the reshuffle, Kono succeeds Iida, who will become director-consultant; Nakachi remains chairman. Gwen Robinson, Tokyo

Upheavals in Austrian banking

They are changing the guard at the top of Austria banking. Konrad Fuchs, 59, the second-longest serving chief executive of an Austrian bank, has announced his early retirement from First Austrian in 1996 and became chairman of the board of First Austrian's consumer credit subsidiary and its real estate unit, Recruit Cosmos, which were burdened by bad loans.

Under the reshuffle, Kono succeeds Iida, who will become director-consultant; Nakachi remains chairman. Gwen Robinson, Tokyo

Their departure marks the end of a generation. Over the last two years, Bank Austria, Bawag, Girocredit, and RZB, the central bank of Austria's *raiffeisen* (or co-operative) banks, and the Post Office Savings bank, have all changed chief executives. Fuchs joined the executive board of First Austrian in 1973 and has overseen a growth in operating profits from Sch2.7bn to Sch2.3bn. However, First Austrian has to rethink its strategy following its failed consortium bid for Creditanstalt. Fuchs does not feel it is right that he should set a strategy that he will not be around to implement. Ironically, his successor is likely to be Andreas Treichl, 44, son of a former chairman of Creditanstalt, and a leading light in First Austrian's planned merger with Creditanstalt.

Schmidt-Chiari's departure is already overdue. He was unhappy with the Bank Austria bid and along with several other members of his managing board is unlikely to be offered a job with Bank Austria. His successor - as yet unknown - could be Ferdinand Lacina, 54, a former Austrian minister of finance, who took over as chairman of Girocredit's supervisory board. William Hall, Zurich

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Georges Brys succeeds Renzo Marzolla as chairman of AGFA-GEVAERT FRANCE.

Thierry Le Henaff is appointed to the newly created position of director for Europe at BOSTIK, TOTAL's adhesives division. He retains responsibility for southern Europe.

Keith Conklin has been appointed president of NESTLE FOOD GROUP and executive vice-president of NESTLE CANADA INC.

International appointments

Plans for internationalisation on new appointments and retirements to

17.2.97

for International People

Set for 17.2.97

BERLIN

LAW

Exclusive jurisdiction



EUROPEAN COURT

Exclusive jurisdiction

The European Court of Justice spent out the position regarding exclusive jurisdiction clauses in contracts and the role of national courts in determining whether such agreements are valid under the Brussels Convention.

The judgment arose over a dispute between the German owner of a gravel barge and the French company chartering the vessel to load, transport and discharge gravel. The vessel was damaged during use in France and the German owner alleged this was due to the French company's handling equipment.

The claim for damages was brought in the German courts on the basis of a statement in a letter of confirmation, which had not been overtly agreed by the parties where the clause accorded with practices in international trade or commerce of which the parties were or should have been aware, consensus between the parties would, the Court held, be presumed to exist where criteria in the convention were met.

Where therefore, as in the present case, one of the parties to a contract did not react or remained silent in the face of an exclusive jurisdiction clause then such conduct would be deemed to constitute consent provided the clause was consistent with a practice in force in international trade or commerce of which the parties were or should have been aware.

Nevertheless, it decided it should indicate the objective evidence necessary to make such a determination.

The first point to consider was whether the contract in question came under the head of international trade or commerce.

Next, the issue as to whether a relevant practice existed would be determined by reference to the law of one of the contracting parties to the convention.

ON THE MOVE

■ Samuel Chevalier, former president of Irving Bank Corporation, has joined COMMERCIAL BANK OF NEW YORK's board.

■ Following the merger of Credit Suisse's corporate banking arm with CS First Boston, David Mulford has been appointed chairman of the new CREDIT SUISSE FIRST BOSTON (EUROPE).

He also becomes vice-chairman of Credit Suisse First Boston and a member of the executive board.

■ Alain Ruset, currently chairman and chief executive of Caisse Centrale de Réassurance joins Groupama as chairman of SOREMA and will be appointed chief executive of SOREMA INTERNATIONAL.

■ LEHMANN BROTHERS

have announced the appointment of Howard Carter as executive director, head of global foreign exchange sales.

■ David Flaschen has been appointed president and chief executive of THOMSON FINANCIAL SERVICES (TFS), a provider of financial information.

with effect from March 3. He

succeeds Mason Slaine, who recently left the company.

■ The executive search company KORN/FERRY INTERNATIONAL has appointed Michael Boxberger, its president, to the additional post of chief executive, effective May 1.

■ DONNELLY CORPORATION has appointed Hans Jürgen Koch, who will have responsibility for Donnelly's European manufacturing plants, and Hubert Metz, who will have overall responsibility for the company's human resources and communications in Europe.

■ PORSCHE have appointed Alwin Springer to the position of sport director of Porsche Motorsport North America, based in Santa Ana, California.

■ THE RESERVE BANK OF AUSTRALIA has appointed Malcolm Eddy head of its economic analysis department. He joined the Reserve Bank in 1977.

■ PAINEWEBBER have announced three appointments to the firm's global fixed income division management team. J.J. McKeon becomes director of the division's emerging

cans grip

on how a new

he US by storm

Outsiders grab the Golden Bears

Nigel Andrews reports on the unlikely outcome of the Berlin Film Festival

Not even the most experienced tea-leaves gazer could have foretold the prizes for the 47th Berlin Film Festival. The Golden Bear surprised many by going to America's *The People Versus Larry Flynt*, the truth-based tale of a porn publisher's freedom campaign. Directed by Milos Forman, it opens in Britain soon. (Much fuss about a ban-thwarted poster, mixing sex and blasphemy, may have nudged liberal-minded jurors.) The Silver Bear surprised even more people by going to Taiwan's *The River*, reviewed here last week as a fascinating film with (I thought) minority appeal.

If the movie prizes made sense, of a recherche kind, the acting prizes made little at all. Juliette Binoche won for her nurse in *The English Patient*, a role testing few actorly boundaries, and Leonardo DiCaprio was tapped for his yell-and-emote Romeo in Baz Luhrmann's *William Shakespeare's Romeo and Juliet*, another "treat" I am

saving for its British opening. But it was an odd time all round at Berlin. We never knew who would appear in the bearpit next. Lauren Bacall, on the same day that she received a lifetime achievement prize, was jeered for her role in a portentious French film co-starring Alain Delon. And on the last weekend - cruellest sight of all - two Berlin "little people" were marched on stage dressed as Martians in the cast bow for Hollywood's punchdrunk space opera *Mars Attacks!*. One felt for them: they were the comedy entr'acte at the Colosseum.

Berlin '97 did give us two good films, each better than the main prizewinner. They were Yim Ho's *Kitchen* and Andrzej Wajda's *Miss Nobody*. *Kitchen*, based on the novel by Banana Yoshimoto, is a gem. The story's heroine is grandmother-bereaved "Aggie", who learns about life through a new love that grows up, slowly, quickly, from the pain of loss. Hong Kong filmmaker Yim Ho, who made *The Day the Sun Turned Cold* and won last year's

Berlin Best Director prize for *The Sun Has Ears*, now swaps heavenly bodies to give us the moon. It shines like a blessing on this eerily gorgeous film, which uses lighting, colour-rhymes and bizarre emblematic brie-a-brac (a lava lamp, giant toadstool-like park tables above night-time Hong Kong) to push the subliminal towards the surreal.

Though this chamber drama has just three main characters - Aggie, her initially platonic boyfriend *Louie* and his transsexual "mother" Emma - Yim's visuals have more rhythm, inventiveness and sense of landscape than many a western. It is also funny. Aggie's passion for ear-nibbling, Louie's horror at the foot when he is briefly transplanted to Mainland China, Emma's campy epigrams: all turn a potentially sombre love-'n'-death fable into something like a *Armistead Maupin* story filmed by an oriental Cocteau.

Wajda, that greatest of pensionable Poles, has submitted late-career works to Berlin before. But they have seemed late-career historical movies at once stiff-jointed and hollow-sounding, more "Man Of Marble" than "Man Of Marble". The schoolgirl heroine of *Miss Nobody* could be dubbed "Girl of Mercury", a tantalising blend of victim and victimiser, she slips and flows into different fugitive patterns even as her classmate bullies her. Two successive friends - a rebel tomboy battling with her own demons (music, epilepsy) and a brattish rich girl - "adopt" her, only for these friendships to fluctuate slyly and sinisterly in their power structures.

The second half disappoints, with Wajda playing dwindling variations on the theme of Adolescent Gothic. But early scenes are electrifying, especially one in which a vulnerable teacher is reduced to tears by a girl's satanic powers of mock-sympathy. Elsewhere in Berlin '97 it was a choice between the good, bad

and the giggly. The second French film after Bacall's to raise derisive titters was *Lucie Aubrac*, a naif Resistance tale from Claude *(Jean De Florette)* Berri starring the immaculately inexpressive Carole Bouquet.

A more respectful laughter was offered to Rainer Ritsch's eccentric *Genealogies Of A Crime* - sex, philosophy and defenestration in a Borgesian Paris - and Wolfgang Becker's sporty Berlin street comedy, *Life Is All You Get*. This manages to laugh through its tears at everything from HIV to unemployment to TV quizzes.

And there were the oldies, raising smiles of purest joy. A G.W. Pabst retrospective, re-opening *Pandora's Box* and other classics. And Hitchcock's *Vertigo*, with Kim Novak and James Stewart restored to their former VistaVision glory; though surely some scenes, including the bell-tower climax, shouldn't be quite so dark? One ends up peering about *blindly* for solid objects. But then a lot of us, not least the jury, did a lot of that this year at Berlin.

Opera/Richard Fairman

Mozart all dressed up

Giorgio Armani has unveiled his summer collection. There are blues and turquoise, chic trouser suits for the ladies, long scarves for the men, and the designs look the epitome of modern style as the models parade in them on the stage of the Royal Opera House.

As it happened, there was a performance of *Cosi fan tutte* going on at the same time. In 1985 Jonathan Miller's production of the opera managed to get itself plenty of airtime and column inches by proposing a novelty: "hautie couture" opera. Now Armani has returned for this first revival with new costumes from his latest collection. No matter that the opera is 200 years old; the clothes are up-to-the-minute. All this would be a harmless diversion in the context of a fully-integrated production, but in recent years Miller's work has been getting increasingly bland. I did not see this *Cosi fan tutte* when it was new and can only rely on reports from those seeing it for the second time that the cast of this revival has done marvels in bringing it to life. It is hard to avoid a feeling of underlying avariciousness, as though Miller was more concerned about the characters' appearance, while the singers were left to get under their skin.

It is certainly a very appealing cast. What a life opera singers have these days! It is not enough to sing and act; they have to look good in a fashion parade too. Soile Isokoski models her Armani dresses with grace, but also delivers a strong "Come scoglio".

There is something of the quality of Soderström in her voice, which is not the conventional, creamy Mozart soprano. Her Fiordiligi was almost ideally partnered by Helene Schneiderman's cleanly-sung Dorabella; both are natural performers and prefer to underplay a little.

The two men also made a well-matched pair, Rainer Trost's carefree, possibly irresponsible, young Ferrando having a good foil in the upstanding Guglielmo of William Dazeley. Trost is unusual in hitting his best form in his intense singing of the difficult "Tradito, schernito", the one moment of the evening when pain really hit one of the characters. Alessandro Corbelli does not miss a trick as a sly Don Alfonso and Lillian Watson brings a wealth of experience to Despina, which is as well when the production's updating negates her role. How many servant girls get to pose in the latest Armani?

They were all held in check by Dietrich Bärnert in the pit, who kept the music efficiently trussed up. This is not loving conducting (the Act 1 finale, opening with a bump down on the first beat of each bar, was an example of all that was wrong). But for this revival's spirited cast, it will be worth tuning in to the television relay on March 8. I note that the interval talks will deal with "fashion and dressing-up", "marketing of brands" and "clothes as a lifestyle". Move over, Mozart. The stars of the show are heading down the catwalk.

Further performances (with changes of cast) until March 19.

Theatre/Sarah Hemming

A twilight world

Swingers. It sounds like a play that might be about some 17th century radical movement: the Diggers; the Levellers; the Swingers. But no. Mick Mahoney's enjoyable play deals with an altogether less elevated group of people: the employees in a London West End swag shop, the sort of establishment that piles them high and sells them fast - fast enough to escape any unwelcome questions about the origins of the goods. And it is not only the stock that is hot; the shop also gives house room to thieves, extortionists and the odd ex-con.

So it is that when the play opens, John is discovered running off bootleg tapes in a boxroom above the shop. Three months out of jail, John, we learn, was once a pickpocket of some distinction; but credit cards have taken some of the edge of the business. So here he is going straight - or at least a relative version of straight. He finds himself in good company. Michael, the smooth and distinctly unpleasant boss (Rupert Heyer) is sweetly trying to shift a sack of stolen computer accessories, brought in by Nancy (Rhona Mitra) - barely out of her teens and hard as nails - in between fondling the luscious store manager, Tess (Helena Cullinan), and squabbling with the hard-bitten Dee (Carol Harrison).

Mahoney has a great time with his characters and the bizarre twilight world which they inhabit, where downstairs the very poor queue up to buy knocked off clothes, while upstairs Michael produces fat wads of £50 notes from his smart overcoat. Nancy squeezes into a ravishing red dress and snorts drugs to go to a gangster party, but reveals that she is saving her virginity until she is married; Tess toys with the idea of taking a secretarial job in a law firm, but fears it may be too insecure; vicious criminals rub shoulders with the weekday shoppers.

Mahoney comes up with some enjoyable gags, relishing the rhythms of the street level patois in a manner reminiscent of Mamet. In places, however, this misfires, for he does not have the timing or precision of Mamet.

Things improve, however, in the second half, when a twist of plot brings all the characters to

crunch time and provokes a show stopping climax. It is hard not to like a play with such energy and such appetite for the strangeness of life. John Howe's set, piled high with cardboard boxes, catches the grubby precariousness of it all, and there is a particularly enjoyable performance from Peter Hugo Daly as John, looking like Roland Rat on a bad hair day. Shopping in Charing Cross Road will never seem the same again.

Continues at BAC London SW11 to March 9 (0171 223 2223).

The British taste for modernism

All Art, if it is any good, is Modern Art in its time. But at some point during the Victorian era, something put the British buying classes off the very idea. Their forebears may have bought Canaletto and Batoni, Gainsborough and Stubbs, Turner and Constable, Millais and Hunt all wet off the easel, but suddenly anything fresh and new was dangerous, immoral, laughable.

Had Ruskinian moralising upon the higher purposes of Art struck too deep? Was the world simply changing too fast? Whatever the case, the habit of mind stuck, and sticks with us still, as the Barbican now reminds us. Is it amusing to learn that when some of the familiar and beautiful works now at the Barbican were first shown in London, Oliver Brown of the Leicester Galleries was advised by an elderly academician: "Don't go in, young man, it will do you harm. The pictures are evil?" Is it amusing that The Times's critic thought them "degenerate... a rejection of all that civilisation has done"? Intimation indeed of successive furores down the century, from Moore, Epstein, Picasso and Matisse to Carl Andre and Damien Hirst. Not amusing: it is depressing.

In the autumn of 1910, the critic and painter, Roger Fry, organised what was to prove one of the most memorable exhibitions of the century. His *Manet and the Post-Impressionists* included British along with continental artists and effectively introduced the British public to the work not just of young turks such as Picasso and Matisse, but to Gauguin, Cézanne and Van Gogh, even Manet. Fashionable London flocked to the Grafton Galleries to see it.

It would have been wonderful to reconstruct this remarkable show in its entirety, but that was never possible. The Barbican has

done the next best thing by getting hold of what it could, and appropriately representing the principal artists. Further, it has looked to the exhibitions which followed: a show in 1910 by Augustus John of his Provencal landscape studies; Fry's second Post-Impressionist show in 1912; the Futurist exhibition at the Sackville Gallery and the "Rhythm Group" at the Stafford, both again in 1912; Frank Rutter's rival Post-Impressionist and Futurist show at the Doré Gallery in 1913; the Whitechapel's *Review of Modern Movements* in the summer of 1914, from Camden Town to Vorticism.

What all this demonstrates is that in those heady years before 1914, British artists at least, if not their public, were fully alive to what was being done abroad. British artists travelled abroad, looked with a natural curiosity at what was being done, but then came home to their own preoccupations. That bedraggled old *concord*, that in the British were but pale followers and imitators of their French masters, no longer flies.

We forget how uncertain and fugitive fledgling reputation is. Matisse now towers above us, but in 1910, he was just another painter. The point is well made, by judicious interspersion and comparison, that the British artists shown here were not French artists manqué, but British artists. Their work is sympathetic but different. And while it would be tedious to claim now an equivalence in stature for any of them with a Cézanne or a Matisse, as we now know them, even poor old Roger Fry, never the best of painters, is not disgraced, even alongside the magnificent Cézanne, which the Antell *Academie de Helsinki* had the nous to snap up in 1910 for all of £800. It hardly needs saying that nothing



'Rhythm', 1911, by John Duncan Fergusson in the Barbican Gallery exhibition

was bought for any British public collection.

Sickert alongside Vuillard and Bonnard holds his equal place by right, his darker *impressionism* less hedonistic perhaps, but no whit less convincing than theirs. The fauvism of Vanessa Bell and Duncan Grant, flirting with abstraction, may nod to Matisse but yet is entirely idiosyncratic and again surprisingly strong only to the prejudiced. Harold Gilman is entirely his own man, marrying Maynard Keynes, supplies a pertinent link. For Keynes was a friend of Fry and the Bells; and it was Vanessa Bell who persuaded

that, in his portrait of Sylvia

Gosse, defies even Matisse. The show at Michael Parkin, 1910, offers the broader domestic context in which that first Fry show took place. Some of the artists are in the Barbican show, others, such as the Newlyn Impressionist, Harold Harvey, would hardly have won Fry's approval. Yet Harvey's lovely portrait of the Russian dancer, Lydia Lopokova, who married Maynard Keynes, supplies a friend link. For Keynes was a friend of Fry and the Bells; and it was Vanessa Bell who persuaded

him to buy the small Matisse, a woman sitting in a chair, from an exhibition at the Leicester Galleries in 1910, which supplies the Barbican's postscript. The show sold very well, to Matisse's surprise. "Il son fou, les anglais", he said.

William Packer

Modern Art in Britain 1910-14: Barbican Art Gallery, London EC2, until May 26. 1910 - portrait of a year: Michael Parkin, 1910 - until March 14.

Modern Art in Britain 1910-14: Barbican Art Gallery, London EC2, until May 26. 1910 - portrait of a year: Michael Parkin, 1910 - until March 14.

by the Städels Museum, Frankfurt; to Mar 16

SALZBURG

EXHIBITION
Rupertinum - Salzburger Landesammlungen: Tel: 43-662-80422336
● Adolf Wölfli (1864-1930): exhibition of drawings by the Swiss 'Art Brut' artist Adolf Wölfli from the collection of the Kunstmuseum Bern; to Mar 2

STRATFORD-UPON-AVON

MONDAY TO FRIDAY
NBC/Super Channel:
07.00 FT Business Morning
10.00 European Money Wheel/Nonstop live coverage until 15.00 of European business and the financial markets

TORONTO

EXHIBITION
Art Gallery of Ontario Tel: 1-416-979-6648
● The Mystical Landscapes of Charles-Marie Dulac: exhibition of work by the French Symbolist, including his best known work; the series of eight landscapes entitled 'Payages', produced in the 1890s; from Feb 26 to May 25

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INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT

Concertgebouw Tel: 31-20-6718345

● Mihaela Ursuleasa: the pianist performs works by Scarlatti, Schubert, Schönberg and Brahms; 8.15pm; Feb 28

EXHIBITION

Rijksmuseum Tel: 31-20-6732121

● The display of power: this exhibition features costumes and textiles from the 18th and 19th century showing signs of power and status. Among the objects is a christening robe worn by Princess Wilhelmina, Princess Julian, Princess Beatrix and Prince Willem-Alexander. Also exhibited are royal dresses, fans and handkerchiefs decorated with monograms, coats of arms and texts; to Mar 26

BONN

EXHIBITION

Kunst- und Ausstellungshalle der Bundesrepublik Deutschland Tel: 49-228-8171200

● Renzo Piano: exhibition examining the work of architect Piano, whose previous projects include the Centre Pompidou in Paris. The display focuses on eight projects, showing the different procedures involved from initial concept to finished building; to Apr 6

LONDON

CONCERT

Queen Elizabeth Hall Tel: 44-171-9210600

● Albany Berg Quartet perform works by Schubert. Soloists include pianist Andras Schiff and

BERLIN

CONCERT

Konzerthaus Berlin Tel:

44-30-20 66 22 22

● Michaela Ursuleasa: the pianist performs works by Schubert. Soloists include pianist Andras Schiff and

LOS ANGELES

CONCERT

Dorothy Chandler Pavilion Tel:

1-212-247-7800

● Sanford Sylvan and David

Breitman the baritone and pianist

perform works by Schubert; 8pm; Feb 28

NEW YORK

CONCERT

COMMENT & ANALYSIS

Martin Wolf



Picking up Deng's baton

China's limited economic reforms have lifted the people's living standards dramatically, and stopping the process will be politically impossible

Deng Xiaoping uncaged the dragon. Ever pragmatic, he was the first Chinese leader to let his people exploit the opportunities which two centuries of modern economic growth had created in the world around them.

Deng's bequest is a dynamic, albeit semi-unreformed economy and an unreformed polity. His vast country confronts an outside world poised between enthusiasm and anxiety. It is easy to develop scenarios of disaster at home and conflict abroad. It is more probable that economic reform will deepen. China's politics will become more democratic and a satisfactory *modus vivendi* will emerge between China and the rest of the world.

Whatever the difficulties, the movement towards a market economy is almost bound to continue. There is, as another leader of the 1980s famously remarked, no alternative. Just remember what happened after the Tienanmen Square massacre. Many observers then concluded that this meant not just the reimposition of Communist party control but the end of economic reform. They were wrong.

After the Tienanmen crisis was settled by military force, the hardliners tried to turn the clock back, adopting as their goals macroeconomic austerity, re-centralisation of public finance, stronger central planning and preference for state-owned industry. But economic growth collapsed, to 4.3 per cent in 1988 and 4 per cent in 1990; the central plans proved useless; fiscal decentralisation was thwarted by local government; and state enterprises were, as the graph shows, damaged by the greater political control then exercised over them.

This last attempt to return to socialist orthodoxy achieved the opposite of what its proponents intended. As Professor

Barry Naughton of the University of California notes in his splendid book on Chinese reform*: "The prolonged process of economic reform gradually created a consensus, even among China's leaders, that the creation of a market economy was the only feasible approach to successful economic growth... There was no longer a constituency for the kind of hardline economic policies that were followed in 1989. It was clear within China that those policies failed, and failed spectacularly."

Further reform is also a political imperative. Communist rule now survives by promising the Chinese a better material life. Though the people's appetites have been whetted over almost two decades, they are far from sated. A government lacking the ideological stature of a Mao or the prestige of a Deng must permit the Chinese people to enrich themselves. Prolonged slow growth is not a politically sustainable option.

The government must deliver growth at 8-10 per cent a year, combined with modest inflation. If it could achieve this without tackling the failings of state

enterprises and the financial system, it would surely do so. If it could achieve this without establishing secure property rights, it would again do so. But these further reforms will become more urgent as the economy becomes more sophisticated.

They will also become somewhat easier. State enterprises will come to matter less as their share in output and non-agricultural employment continues its steady decline. Similarly, reform of financial institutions will be facilitated by the growing availability of dynamic non-state businesses as potentially profitable clients.

The lack of intellectually credible alternatives is the first reason for believing reform will continue. The political imperative of sustained growth is the second. Momentum is the third. Experience suggests that once an economy has managed almost two decades of growth at close to 10 per cent a year, fast development becomes embedded until it converges on the standards of living of advanced economies.

Optimism about economic reform brings with it a parallel optimism about the failings of state

the nationalist drum over Taiwan, Hong Kong, Tibet and the South China Sea.

There are three answers to such pessimism. The first is that China is already an empire with more people than it can manage. The second is that the rest of the world - which primarily means the US - must convince the Chinese leadership that adventurism will not pay. The third is that its partners must also persuade China that co-operation will be rewarded by both economic integration and an influential voice in global institutions.

Deng's legacy is an emergent China. The challenge he has bequeathed to his successors at home and their peers abroad is that of managing this development.

Fortunately, China's new rulers will find themselves under vast pressure to proceed with economic reform and initiate at least some political reform as well.

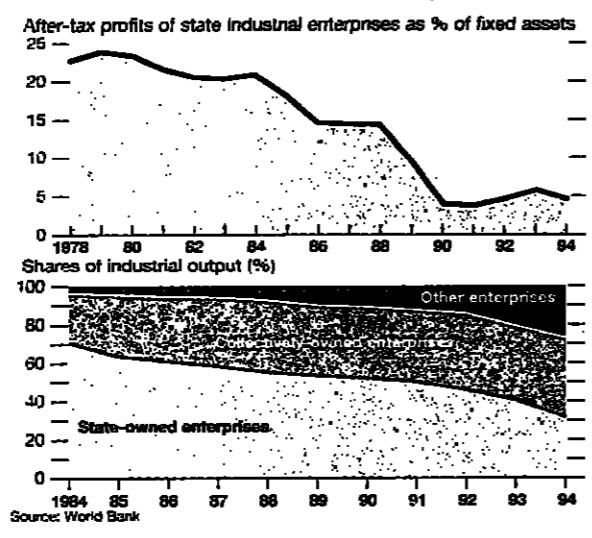
This pressure will be still greater if they are deprived of any opportunity for nationalist posturing.

To achieve this aim, the west must show consistency and determination in pursuing a long-term policy of constructive engagement.

China and its partners need to remember that they all stand to gain far more from co-operation than from attempts at bullying one another. Even a casual acquaintance with history should be enough to convince them of this compelling truth. The emergence of previous great powers has often led to catastrophic conflict. In a nuclear age, the world is doomed to avoid a repetition.

Must relations with China go the same unhappy way? One reason for fearing so is also the strongest one for pessimism about domestic reform. Unpopular governments can find aggressive nationalism an attractive alternative to democracy. It is particularly appealing if the military is a regime's principal support. It is hardly surprising therefore to see the leadership beat

The decline of state industry



Source: World Bank

*Growing Out of the Plan: Chinese Economic Reform 1978-1993 (Cambridge: Cambridge University Press, 1995)

**The Clash of Civilizations and the Remaking of World Order (New York: Simon & Schuster, 1996)

The apparition of opposition

New Labour will have to off-set inexperience with carefully laid plans, says Philip Stephens



New Labour is unprepared for government. That much is a truism.

After 18 years in the wilderness, Tony Blair's party will not slip easily into the ways of the Whitehall village. The casual reflexes of opposition are deeply entrenched. The grind of government is as yet an unimagined shock.

This question of experience will loom large in the remaining weeks before the general election. If the Conservatives lose the coming Wirral by-election as badly as they fear, many in John Major's administration will conclude the game is up.

But the few remaining Tory optimists will not be alone in asking how a party as untested as Mr Blair's can be trusted with the reins of power. Eighteen years is a long time. There is an irony here. The voters seem determined on change, but scratch below the surface, and they are fearful of the unknown.

Government demands different styles of politicians. The talents of the brilliant orator on the opposition front bench in the House of Commons are not necessarily those of the effective cabinet minister. Most of the time, opposition is 80 per cent politics and 20 per cent policy. The reverse is true of government. The odd semi-retired civil servant with a high-ranking personal adviser on Europe to deal on his behalf with continental counterparts.

Power would also remove

the present inhibitions on

personal rivalries in opposition.

Mr Brown and Robin

Cook, the shadow foreign

secretary, have an incentive

to minimise their mutual

animosity. Victory would

remove the constraint.

And then there are events.

The unexpected in politics is

on the side of the opposition.

In government, events crowd

out the most carefully laid

plans. Who would have pre-

dicted a year ago that Mr

Major's relations with his

European counterparts

would be all but destroyed

by some new scientific find-

ings about mad cow disease?

Mr Blair gives the impression there is little he can do unless and until he reaches 10 Downing Street. He is anyway superstitious about taking victory for granted.

But however busy he is now, the pace of life in power will be more frenetic. And some plans can be laid in advance.

Wisely, he seems to have eschewed a wholesale rearrangement of the Whitehall furniture. Nor are there plans for a cull of senior officials. A new government needs the goodwill of its civil servants. But there are improvements to be made.

The cabinet office has become too much an instrument of conciliation and vacillation. It needs to be brought closer to the prime minister, and to refocus on decision-taking. The pending retirement of Sir Robin Butler provides the right moment to split the task of cabinet secretary from that of head of the civil service.

There is a similar case for reorganising Number 10. The policy unit could be expanded to accommodate both long-term thinkers and fire-fighters. Politics and policy could be brought closer together. The prime minister also needs a high-ranking personal adviser on Europe to deal on his behalf with continental counterparts.

There is a cogent case too for a new inner cabinet of senior ministers to drive through overall strategy. A New Labour government would have its fair share of duds. Mr Blair would need to maximise the potential of the best in his team.

None of these changes would guarantee success. They might help, though Mr Blair can hardly be blamed for concentrating his efforts on the election. But he needs to know before polling day what he intends to do and how, if indeed he wins. Once in government, inexperience will be no excuse.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Translation may be available for letters written in the main international languages.

Retailers' competitive advantage in developing banking services

From Mr Ian Cheshire.

Sir, With regard to your article "Rules of the card game" (February 21), discussing the differences between supermarkets and banks, surely everyone would expect the grocer to run a best industry practice financial operation, just as we do with our internal Sears card business. Retailers around the world run extensive financial services businesses, such as the huge UK and European credit businesses run by mail order companies, and the largest credit card in the US, Discover, which originated in Sears Roebuck.

Rather than the differences, the striking feature is how much more similar the banking and retail worlds are becoming, increasingly they must be "relationship" businesses, based on efficient low-cost networks.

Retail is no longer "selling as much as possible... (to)... as many as possible"; it is more about maximising customer value, using the data you have collected on him or her. Here, the supermarkets have three significant competitive advantages:

- No existing banking business. They can cherry pick the better customers, use a low marginal cost base to provide better value, and are not hampered by the legacy of systems and structure of the banks.
- Huge customer flow. Stores, unlike banks, are visited frequently and with Clubcard/Reward schemes in place they have in-depth customer data to maximise the value of each visit.
- Brands. While some applicants will have to be turned down, most will not be, and the grocers are clearly trusted to work in the inter-

est of the customer, with a service ethic, as opposed to the traditional banking control culture, which is seen by customers as self serving.

Given the inertia in the market, progress will be slow, but the new competitors will inevitably take share from the banks, and the stores will learn how best to run a banking business, as they have progressively mastered fresh foods, petrol and pharmacies. Given how massively profitable UK personal retail banking is (based on deposit margin from apathetic customers), the potential prize for the winning grocer is vast. The price of consumer credit can only fall.

Ian Cheshire,
group commercial director,
Sears,
40 Duke Street,
London W1A 2HP, UK

Russia in Nato as long-term prospect

From Professor Richard Layard.

Sir, As Ian Davidson points out ("Frontier diplomacy", February 5), the west has got into a real mess over Nato expansion. The present plan can have only one real purpose - to create a wider alliance against Russia. But this can only increase rather than reduce the probability of conflict.

There are two possible ways out of the mess. The first is to abandon Nato expansion, but this is unlikely to happen. The second is to envisage a wider expansion.

As Hobbes pointed out, the maintenance of peace and

long time. But what matters is the direction of movement.

After the 1945 defeat of Germany it was a long time before its army became integrated with the military structures of the victorious powers. But that was always the aim. Is there any good reason why the same approach should not now be adopted towards Russia?

Under this scenario, discussions would soon begin with Russia and Japan about the possibilities of ultimate membership. In the case of Russia it should be recognised that this will take a

long time. But what matters is the direction of movement.

The prospects that the United Nations would ever reach this position are extremely poor and the record of the last few years shows that Nato is the only security structure in the world which is reasonably effective. So why not envisage a wider role for Nato that could expand over the years?

Under this scenario, discussions would soon begin with Russia and Japan about the possibilities of ultimate membership. In the case of Russia it should be recognised that this will take a

Manoeuvres on road to monetary union

From Dr J. Toporowski.

Sir, Graham Bowley ("Currency conundrum", February 15) misses out an important reason for the current strength of sterling, namely the imminence of European Monetary Union and the attendant manoeuvring for

competitive advantage in exchange rates.

Having conceded to the Eurosceptics an option to stay out of the monetary union, the UK government has in effect conceded to its more committed European partners the facility to ease

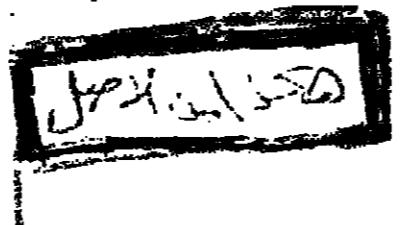
in the monetary union by depreciating European currencies against sterling.

J. Toporowski,
reader in economics,
South Bank University,
103 Borough Road,
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Just as the Soviets did with the US Packard limousine (ZIS/ZIL), German Opel (Moskvitch), British/French Concorde supersonic jet (Tupolev 144), etc.

With the introduction of the euro, the UK has been left out in the cold.

GIORGIO ARMANI
LE COLLEZIONI



COMPANIES AND FINANCE: EUROPE

Fertiliser weakness hits Norsk Hydro

By Jenny Luesby

Norsk Hydro, the Norwegian light metals and oil and gas group, yesterday reported a downturn in the European fertiliser market which could herald a further setback for the region's chemicals industry.

Mr Georg Stormer, finance director, said the company's European fertiliser sales had fallen by 10 to 15 per cent in the fourth quarter of last year, and 1997 had got off to "a very, very slow start".

Hopes of an improvement

in the sector rested on a reversal in the European Commission's set-aside policy, he said.

Unveiling its results for last year, Norway's largest listed industrial conglomerate disappointed the market with a 13 per cent decline in net income in 1996, to NKR6.2bn (\$923m), as three of the group's four businesses suffered setbacks.

The shares closed down nearly 8 per cent at NKR49, depressing Oslo's total index by 2 per cent.

In the group's agriculture

division, operating income fell 26 per cent in the fourth quarter, to NKR386m. The decline reflected both the reduced volume of fertiliser sales and lower margins caused by rising prices for the raw materials, such as ammonia.

The decline was even greater in the light metals division, where operating income fell 76 per cent, to NKR1.65m. This was caused by falling aluminium and magnesium prices, and the driest year in Norway for 30 years, which

left Norsk Hydro without the hydroelectric power to run its metal businesses. The group spent NKR800m buying in electricity.

Meanwhile, the petrochemicals division, dominated by the PVC business, saw some recovery from 1995's depressed fourth quarter.

But prices and margins remained under pressure, said Mr Stormer, as a result of over-production in North America. For the year, operating income for petrochemicals fell 75 per cent, to NKR27m.

The reversals in other businesses more than offset an excellent performance in oil and gas, where operating income rose 23 per cent, to NKR1.34bn, in the fourth quarter, and by 72 per cent, to NKR5.63bn, for the year.

Price rises were responsible for most of the improvement, but Norsk Hydro also increased the volume of its production by 11 per cent, to 13.5m tonnes of oil equivalent.

Mr Stormer said production would be static this year as a result of its produc-

tion sharing arrangement with Petro-Canada.

The shift in the group's business towards oil and gas raised its tax charge, although it did receive an extraordinary tax gain of NKR765m in the fourth quarter.

The group increased investment by 47 per cent, to NKR12.8bn, in 1996. This was funded from cash deposits, with gearing falling from 45 per cent to 41 per cent.

It announced a dividend of NKR7, up from NKR6 last year.

EUROPEAN NEWS DIGEST

Sandvik to redeem SKr4bn of shares

Sandvik, one of Europe's leading engineering groups, has joined a growing trend among Swedish companies by handing excess cash back to shareholders, with plans to redeem SKr4bn (\$541m) in shares. The company, which yesterday reported a 17 per cent drop in annual profits, has generated a lot of cash in recent years and said it had become over-capitalised. Its liquid assets were SKr5.6bn at the year-end and would have been SKr1.9bn higher but for two acquisitions in 1996.

Sandvik joins a string of Swedish companies which this month have announced plans to redeem a total of SKr10.8bn in shares. The list includes Volvo, the car and truck maker, Trygg-Hansa, the insurance company, and Ratos, a leading investment group. News of the pay-back, to be launched later this year, failed to boost Sandvik's shares amid a bigger than expected decline in fourth-quarter profits, from SKr1.3bn to SKr1.3m. The most-traded B-shares fell SKr2 to SKr1.88.

Mr Claes Hedström, chief executive, said the company aimed to reduce its equity-to-assets ratio from 64 per cent at present to below 50 per cent by about 2000. He said Sandvik would launch a redemption rather than a buy-back, which was illegal in Sweden under rules preventing companies from holding their own shares. Redemptions, whereby shares are taken out of issue, are legal but are subject to court approval.

Sandvik's full-year pre-tax profits fell from SKr5.6bn to SKr4.45bn, on sales down from SKr29.7bn to SKr28.8bn. Earnings per share slipped from SKr13.40 to SKr11.20 but the dividend was raised from SKr6 to SKr6.50. The company blamed the appreciation of the krona, which had a negative effect on pre-tax profits of about SKr500m. Another important factor was falling steel prices in Sandvik's steel operations - its second-largest business area - which account for one-third of turnover.

Greg McVay, Stockholm

Pinault son moves up at PPR

Pinault-Printemps-Redoute, the French retailing group, yesterday announced a management shake-up which includes the appointment to a senior executive role of the son of the group's largest shareholder. Mr Francois-Henri Pinault, 34, is to become chairman of Fnac, the subsidiary of the PPR group which is one of France's largest chains of books, music and other "cultural goods".

Mr Pinault is the son of Mr Francois Pinault, who built up PPR through a series of acquisitions, and is the largest shareholder through his family holding Artemis, which has more than 40 per cent of the shares and more than 50 per cent of the voting rights. Mr Serge Weinberg, PPR chairman, said yesterday that Mr Pinault's appointment came after 10 years within the group. He stressed that Mr Pinault had already demonstrated his abilities. "I take full responsibility for his appointment," Mr Weinberg said. Mr Francois Pinault was consulted about all the senior job changes in the group.

Andrew Jack, Paris

Turkish bourse in slow start

Istanbul's new international securities exchange made a slow start yesterday. The state-owned Anatolian news agency reported that while traders posted seven bids totalling \$15m in the bourse's first day of operation, none were matched and no deals were executed. The exchange is attempting to attract trading in the \$11.6bn of Turkish-issued eurobonds, concentrated in London, to Istanbul and kick-start its new International Market, an offshore bourse.

The International Market will be open to foreign companies and the overseas subsidiaries of local groups. No Turkish taxes will be levied and deals will be made in US dollars through existing Istanbul brokerages.

John Barham, Ankara

Bank IG raises Gdanski stake

The Polish Bank IG has agreed to pay the Polish state treasury 250.4m zlotys (\$83.4m) for an additional 32 per cent stake in Bank Gdanski, which was privatised just over a year ago. This will give Bank IG 63 per cent of Bank Gdanski. The deal was struck at 40 zlotys a share, compared with Bank Gdanski's current price of 47 zlotys. The purchase now gives Bank IG, a small private bank founded in 1988, control of 5 per cent of the country's banking assets.

At the same time Commerzbank, the German bank, which already owns a 21 per cent stake of the listed Export Development Bank, has said it wants to raise its stake to 32.9 per cent. And Allied Irish Banks, which owns a 16.3 per cent stake in the listed Wielkopolski Bank Kredytowy (WBK), has been given permission to increase its holding to 60.2 per cent by the central bank. AIB is negotiating to buy the European Bank for Reconstruction and Development's 23.9 per cent stake in the WBK, as well as a 20 per cent share still held by the treasury.

Christopher Bobinski, Warsaw

San Paolo advance lifts hope for sell-off

By Paul Bettis in Turin

The privatisation of Italy's biggest banking group was given a boost yesterday, when Istituto Bancario San Paolo di Torino reported a 36 per cent rise in net consolidated group profit for 1996, to L600m (\$861m).

"These good results make up a more appealing prospect for privatisation," said Mr Gianni Zandano, the Turin-based banking group chairman.

The bank also said it planned to lift its dividend from L40 a share the previous year to L80 a share.

At the same time, the bank confirmed that Dexia, the joint venture between Crédit Local de France and Crédit Communal de Belgique, would acquire a 40 per cent stake in Crediope, its subsidiary specialising in local government financing, and intended to forge a longer-term alliance with San Paolo by proposing to buy a 1 per cent stake in the Italian banking group when it is privatised later this year.

Dexia will pay a minimum of L450m for the 40 per cent stake which could rise to L550m depending on the performance of the Italian company.

Mr Zandano confirmed San Paolo's intention to proceed with a two-phased privatisation of the bank this year. The foundation's holding company, which controls the bank and which floated 21 per cent of the shares in

1992, is planning as a first step a private placement of about 20 per cent of the shares to a group of strategic partners. Later, it will float another 25 per cent on the open market.

After the two operations, the foundation's stake in the bank would drop from the present 65 per cent to around 20 to 25 per cent.

Mr Zandano stressed the bank's aim was to become a true public company. The idea was to form not a strong core of shareholders with ultimate control of the bank, but a core of stable shareholders which would guarantee stability for three years as the bank transforms itself into a public company.

Each stable shareholder would be limited to a 5 per cent stake.

"We believe we could form the model for other privatisations in Italy," Mr Zandano said. The bank's plans were designed to give the international community a clear signal that "things are moving in Italy".

However, there are still doubts over the intention of San Paolo's existing core shareholders, which include IMI, the Italian privatised medium-term credit institute and investment bank, and Banco Santander of Spain. Each holds about 2 per cent of San Paolo and has an option to increase its stake to 5 per cent each. These shareholders are understood to be seeking a more active role than simply that of a

stable shareholder of a public company.

Mr Zandano also said he hoped big Turin-based companies would consider investing as stable shareholders, alluding to the Fiat car group and the Ferrero confectionery company.

The bank is anxious to avoid the errors of its initial flotation of a 21 per cent stake in 1992, which resulted in soured relations with the international investment community.

Despite the recent rally in Italian banking shares and the bank's own encouraging performance, San Paolo's share price has yet to reach the level of the 1992 flotation price of L12,400.

Shares are likely to be offered at a price within the range of L11,500 - the bank's current share price - and L10,000 - the value of the shares the foundation is believed to carry on its books.

The bank's return on equity in 1996 improved to about 6 per cent, compared with 4.6 per cent at the end of 1995, according to preliminary 1996 figures, released yesterday. Consolidated pre-tax operating profits rose 10 per cent, to L3,170m. The ratio of net non-performing loans to net customer loans declined, from 3.3 per cent in 1995 to 3.1 per cent.

The bank's unconsolidated net profit rose 22.2 per cent, to L517m, in 1996. Total assets rose 6.7 per cent to L254,000m.



Gianni Zandano: confirmed plan for two-phase privatisation

Crediope deal completes Dexia network

By Andrew Jack in Paris

Yesterday's deal by Dexia to acquire a stake in Crediope is the first to be completed by the Franco-Belgian local government financing specialist since its creation last year.

The deal was originally negotiated by Crédit Local de France, after its decision to merge with Crédit Communal de Belgique.

Dexia will pay up to FF1.9bn (\$334m) over the next three years to acquire 40 per cent of Crediope, its most important Italian counterpart.

It also plans to take a 1 per cent stake in Istituto Bancario San Paolo di Torino at the time of its forthcoming

privatisation, and to co-operate in a series of projects including the development of bancassurance.

Mr Pierre Richard, Dexia chairman, said yesterday in Paris that "with this important move, [we] have completed our European network".

It builds on the group's existing operations in France, Belgium, the UK, Germany, Spain, Austria and Sweden.

The cost to Dexia of its stake in Crediope will vary between FF1.6bn and FF1.9bn, depending on the performance of Crediope until 2000.

The transaction must still be formally approved by Dexia's directors at the end of March, and receive

approval from the regulatory authorities.

Mr Richard said that, as a result of a pact with other investors, Dexia would have some rights as majority shareholder, and intended to be actively involved in the management of Crediope.

He said the Italian banking sector was undergoing "profound change", and that loans for infrastructure and to local authorities was set to grow sharply, even though it was tightly governed by the state and barely open to competition.

He argued that yesterday's operation was the best way to gain a foothold in the Italian market "safely and most profitably".

It maintained its long-term ratings at AA+ and A-1+ on Crédit Local de France and Crédit Communal de Belgique.

Mr Richard said the acquisition would be funded from its own reserves, without the need for a rights issue, allowing the group to increase its profit from 1997 without any dilution in the holdings of existing shareholders, and providing a net return on the Italian investment for investors of about 9 per cent.

Standard & Poor's, the credit rating agency, said yesterday that the operation was "coherent" with Dexia's strategy of expanding geographically and would have little effect on its shareholders' funds.

It maintained its long-term ratings at AA+ and A-1+ on Crédit Local de France and Crédit Communal de Belgique.

The share swap is expected to be approved by shareholders next month.

YEAR-END REPORT 1996 INVESTOR GROUP

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Investor AB is the largest Swedish industrial holding company. It generates value through long-term active ownership, active investment operations and trading. Over the past 25 years the average total annual return to the shareholders has exceeded 20 percent.

Investor AB owns Saab, 50 percent of Saab Automobile and a portfolio of major holdings in a number of Sweden's largest, most internationally active industrial companies. These include ASEA Scania, Incentive (and through it ABB), STORA, Ericsson, Alfa Laval, SKF and Electrolux. It also has major holdings in TV4, OM Gruppen and WM-data. Investor AB is listed in Stockholm and London. Its largest shareholders are the Wallenberg family foundations and a number of mutual and pension funds.

Investor AB is based in Stockholm, with offices in Hong Kong, London and New York. The year-end report can also be accessed on the Internet.

The 1996 total return for Investor shareholders amounted to 60 percent, compared with an average of 43 percent for the Stockholm Stock Exchange.

Investor sold 55 percent of its holding in Scania in an international initial public offering. At the same time Scania was listed on the Stockholm and New York stock exchanges. Investor received a total of SEK 18,800 m., net, for the Scania shares sold.

In June, Investor and GM/Opel reached agreement regarding a series of measures designed to ensure expansion plans for Saab Automobile, in which Investor holds a 50-percent interest.

On December 31, 1996, the value of Investor's main holdings was SEK 61,325 m. The value on February 17 was SEK 68,185 m. As of April 1, 1996, Scania is also included among Investor's main holdings. Excluding Scania, the value of the main holdings appreciated by 38 percent during the year.

Investor's net worth increased during 1996 by SEK 28,806 m. to SEK 78,880 m., equal to SEK 394 per share. The net worth on February 17 was SEK 85,168 m., equal to SEK 426 per share.

The proposed ordinary dividend to shareholders is SEK 10.00 (9.00) per share.

The complete report can be ordered from Investor's offices.

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COMPANIES AND FINANCE: EUROPE/MIDDLE EAST

European growth raises Teva 19%

By Avi Machlis in Jerusalem

Teva, Israel's largest pharmaceutical company, said yesterday rapid growth in Europe had led to a 19 per cent rise in 1996 net income, on a 17 per cent jump in sales.

The company raised the dividend from Shek20.2 in the first three-quarters of 1996 to Shek30.0 for the fourth.

Sales rose from \$311.3m in 1995 to \$363.3m last year. Net income climbed from \$74.3m in 1995 to \$88.3m.

Teva's shares, the most heavily

traded Israeli stock, fell yesterday on the Tel Aviv Stock Exchange from Shek200.2 to Shek198.4.

Mr Meron Katzap, analyst at Batucha Securities in Tel Aviv, said Israeli investors were waiting for reaction to the results on Wall Street, where the company's shares are also traded.

Earnings per share rose 18 per cent, from \$1.22 in 1995 to \$1.44.

These do not include a one-off, after-tax expense of \$14.9m, 24 cents a share, for a merger last year with Biocraft, the US pharmaceutical company.

Teva said Biocraft was consoli-

dated retroactively into 1995 results, although the merger was completed during 1996.

Mr Katzap said Teva's strategy of acquiring foreign companies was a key factor in raising sales.

About 25 per cent of last year's sales were derived from acquisitions in the US and Europe over the previous two years.

European acquisitions, including APS/Berk, the British generic pharmaceutical company that Teva bought last July, boosted European sales, particularly in the fourth quarter, from \$24.5m in 1995 to \$33.9m in 1996.

European sales accounted for 17 per cent of total revenues for the year, compared with 8 per cent in 1995. Foreign sales accounted for 70 per cent of Teva's revenues last year.

"If we want to keep our place in the industry we will have to continue [making] acquisitions," said Mr Dan Suesskind, Teva's chief financial officer.

Mr Suesskind said the company was considering issuing at least \$100m in bonds next year, in Europe or the US.

Sales rose 21 per cent from \$230.2m in the fourth quarter of

1995 to \$277.7m in the same period in 1996. Net income jumped 81 per cent in the quarter, from \$18.3m in 1995 to \$30.3m in the last three months of 1996.

Teva plans to launch Copaxone, its multiple sclerosis drug, in the US later this quarter. Analysts expect US sales of the drug to contribute \$100m to Teva revenues in its first year on the market, and up to \$300m in annual sales within three years.

Teva is also seeking UK approval for the drug, which will pave the way for marketing Copaxone throughout Europe.

Dutch banks to reveal hidden treasures

Shareholders may benefit from previously under-used reserves, following increased disclosure

Harvesting the fruits of a strong domestic economy and well-sown expansion abroad, the Netherlands' big banks are likely to produce plump results when they begin announcing 1996 profits this week. But the reporting season will bring added piquancy, as the banks reveal for the first time their hitherto hidden reserves.

The banks are revealing their reserves at the same time as making a series of technical changes to their treatment of provisions for bad loans and other exceptional risks, and before disclosing later this year the loan loss figures.

Hitherto the banks have not had to reveal either the size of their reserves or the uses to which they put them. However, the European Union has set a deadline for disclosing any reserves that are put to use. The Dutch banks are making their disclosures ahead of the 1999 deadline.

More disclosure brings advantages. The banks will be able to treat the reserves as tier one rather than tier two capital under the rules of the Bank for International Settlements in Geneva. Their tier one ratios for adequacy of capital against risk-weighted assets, as defined by the BIS, will thus go up.

Whether the move enhances profits in 1997 is another question. "Everything else being equal, earn-

ings will go up," says Mr Wilco Ten Berg, financial controller at ABN Amro, one of the Dutch big three. But this will depend on the way each bank treats a number of items.

Many analysts expect at least a one-off boost to Dutch banks' 1997 bottom line, in the belief that the sector has excess reserves and will use the opportunity - at a time when loan losses themselves are thought to be coming down - to feed some of the past over-provisioning back to shareholders.

Earnings per share for ING, for example, could be enhanced by 5 to 8 per cent this year, according to a study by ABN Amro Hoare Govett, its rival's international stockbroking arm.

Dutch banks' accounting has for the past four years carried the hidden reserves, known as the VAR, at a level specified by the central bank on the assets side of the balance sheet. This allowed periodic "value adjustments to receivables", in effect a deduction against gross loans.

They are now allowed to move the reserves to the liabilities side. But they will from now be shown separately, can encompass a broader range of risks, and the institutions themselves are allowed to decide what the size of the fund should be.

The banks can put the whole existing amount into

the new general contingencies provision, or FAR. Equally, they may make a lower provision, or even none at all, adding the surplus to shareholders' equity.

But these have fallen closer to ABN Amro's average of 0.57 per cent of its lending for 1995; and, in any case, they represented real write-offs rather than, as in the Dutch bank's case, an adjustment to concealed reserves.

A tier one ratio of 6 per cent or more is normal in the Dutch banking sector, compared with the minimum BIS requirement of 4 per cent.

In specific cases, Mr Ten Berg notes, provisioning rates for identical problem loans have been higher at

had high levels of annual provisioning at the beginning of the decade.

Dutch banks than at others. They have provided for 70 to 80 per cent of their exposure to the cash-strapped Eurotunnel, for example, while their UK counterparts have set aside about 60 per cent and French institutions only 40 per cent.

From the first half of this year, ABN Amro will split provisions into actual losses on one line, and an increase to, or release from, the FAR on the next. The bank says it will feel no shame in drawing from the reserves to cover any future "exceptional misfortune". This could range from a bad loan experience, to something going wrong with interest rates, currencies or derivatives, to taking a hit from fraud or a lawsuit.

"Why create a fund unless you can use it?" asks Mr Ten Berg, although he points out that a bank's response to bad times will vary depending on how it sees the outlook. In the UK, while Barclays was in past years adding to provisions, National Westminster was drawing on them.

Dutch banks are likely to vary from the outset in their treatment of the FAR. The position of ING may end up close to that of ABN Amro, but will not be clear until it reports its full year results in early April.

Rabobank, the large cooperative institution, presents its figures tomorrow. With a BIS tier one ratio of 9 per

cent, no shareholders to please, and one of the world's few remaining AAA ratings for private sector banks, it will plot its own course.

One due to the possible diversity came last week from the state controlled NIB, the first to report 1996 results. From a balance sheet total of F1.20bn (\$10.6bn), of which loans and advances were F1.13bn, it created a FAR of F1.30bn. This represented nearly all its VAR undervaluation reserve of F1.31bn.

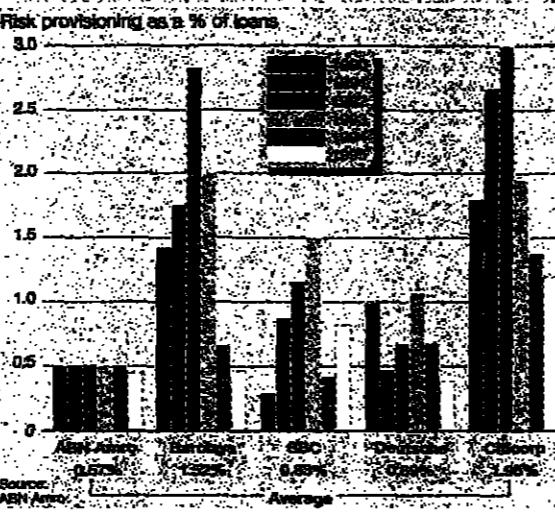
Because under the Dutch system tax has already been paid, the sum is big enough to cover losses of F1.46bn. But as future irrecoverables would be charged directly against profits, this "does not mean that the changes will give extra stimulus to the net profit on balance", it warns.

Still, its first tier BIS ratio goes up at one bound from 8.6 per cent to 10.6 per cent, which "favours the financing of the bank's growth", the bank observes.

ABN Amro, with a loan book more than 20 times the size, is thought likely to be carrying a VAR well in excess of F1.8bn, while ING's cache is expected to be upwards of F1.25bn. If they distribute proportionally more of the excess than the cautious NIB, investors may be in for a feast.

Gordon Cramb

ABN Amro compared

GLENCORE
Glencore Finance (Bermuda) Ltd.

US\$700,000,000
U.S. Commercial Paper Program
(backed by Letter of Credit)

\$350,000,000 Series A Notes

Ratings

S&P A-1+/Moody's P-1

Letter of Credit Provider

Union Bank of Switzerland

Dealer

J.P. Morgan Securities Inc.

\$350,000,000 Series B Notes

Ratings

S&P A-1+/Moody's P-1

Letter of Credit Provider

ABN AMRO Bank N.V.

Dealer

Credit Suisse First Boston

Issuing and Paying Agent

The Chase Manhattan Bank

J.P. Morgan Securities Inc. acted as commercial paper advisor on this transaction

JPMorgan

February 1997

EUROPEAN NEWS DIGEST

Steel price fall hits Outokumpu

Outokumpu, the Finnish mining and metals group, has blamed a big fall in stainless steel prices last year for an 84 per cent fall in 1996 profits. The pre-tax figure collapsed from FIM1.43bn in 1995 to FIM223m (\$45.5m), on sales down from FIM1.95bn to FIM1.55bn. Outokumpu said the results would have been worse but for the rising value of the dollar during the year. Earnings per share fell from FIM8.72 to FIM5.1.

The chief damage was sustained in the stainless steel division, which was hit by a 34 per cent fall in prices. Operating profits for the unit fell from FIM1.76bn in the record year of 1995 to FIM1.6bn - although it remained Outokumpu's most profitable division in copper products, from the group's biggest division, sales edged ahead from FIM7.3bn to FIM7.5bn, but operating profits fell from FIM3.88bn to FIM2.73bn as copper prices also fell, by an average of 22 per cent.

Outokumpu's base metals division remained in the red, but managed a slight improvement as operating losses were reduced from FIM45m in 1995 to FIM36m on sales up from FIM3.9bn to FIM4.8bn. The company blamed weak metals prices and continued high charges against problems in its mining operations. But it said profitability would improve this year as production efficiencies increased in its newly expanded copper and nickel production.

Overall, Outokumpu said it expected metals consumption growth to resume during this year, but warned that price increases were likely to be held back by overcapacity in the industry. Hugh Carnegie, Stockholm

BG Bank disappoints analysts

BG Bank, the third-ranking Danish bank, yesterday reported a small increase in profits before extraordinary items and tax, from DKK1.86bn in 1995 to DKK1.92bn (\$300m) last year. Net profits, however, slipped from DKK1.82bn to DKK1.40bn.

The bank, which has assets of DKK1.86bn, described the figures as "very satisfactory". However, the earnings figure fell about DKK1.20bn short of the lowest of the forecasts by Copenhagen analysts. It received assistance from a cut in bad loss provisions, from DKK739m to DKK462m, but the contribution to profits from the value adjustment in 1995 to 1996 of DKK772m in DKK273m. Income from financial operations declined from DKK7.04bn to DKK6.76bn, while costs were stable at DKK4.20bn.

The bank said core earnings (before the value adjustment, provisions and extraordinary items and tax) were up from DKK1.11bn to DKK1.68bn. However, core earnings were likely to be slightly lower in 1997. An unchanged DKK12 a share dividend was proposed. At DKK5.51m, the payout will equal 25 per cent of earnings.

Hilary Barnes, Copenhagen

Total and Peugeot in F1 deal

Total, the French oil company, and carmaker Peugeot yesterday renewed their partnership in Formula 1 racing with a three-year contract, covering the period from 1998 to the end of 2000. Beginning in 1998, Total will be the exclusive supplier of fuel and lubricants for the Prost/Peugeot racing team. The group have been Formula 1 partners since 1995, under a contract with the Total/Jordan/Peugeot team running until the end of the 1997 season.

AFX News, Paris

This announcement appears as a matter of record only.

February 1997

GLENCORE
Glencore Finance (Bermuda) Ltd.

US\$700,000,000

Letter of Credit Facility
Supporting U.S. Commercial Paper

Joint Arrangers

ABN AMRO Bank N.V.

Union Bank of Switzerland

Co-Arrangers

Bank of America Nt&SA

Banque Nationale de Paris

The Chase Manhattan Bank

Credit Suisse First Boston

J.P. Morgan Securities Ltd.

Société Générale

Lead Managers

ANZ Investment Bank

BHF-BANK Aktiengesellschaft

Dresdner Bank Luxembourg S.A.

ING Bank N.V.

National Westminster Bank Plc

NationsBank, N.A. (South)

Rabobank, London Branch

Managers

Arab Banking Corporation

Banca Monte dei Paschi di Siena SPA

Banco Bilbao Vizcaya SA

Banco Central Hispanoamericano, S.A.

Bank of Tokyo-Mitsubishi (Switzerland) Ltd.

Banque Cantonale Vaudoise

Banque Paribas SA

Bayernische Hypotheken-und Wechsel-Bank AG

Bayerische Vereinsbank AG

Deutsche Bank de Barry N.V.

Fleet National Bank

The Fuji Bank, Limited

Landesbank Rheinland-Pfalz

The Long-Term Credit Bank of Japan (Schweiz) AG

Norddeutsche Landesbank Luxembourg S.A.

Standard Chartered Bank

Trinkhaus & Burkhardt

COMPANIES AND FINANCE: THE AMERICAS

LEX COMMENT
UK electricity

Yet another regional electricity company bites the dust. But sentimentalists bemoaning the Americanisation of Britain's power industry are missing the point. Take yesterday's £1.5bn (\$2.43bn) acquisition of Yorkshire Electricity by American Electric Power. It is no skin off British noses that Yorkshire has squeezed out of AEP a 15-30 per cent premium over analysts' estimates of its fundamental worth. Why then are Yorkshire's shares still hovering at a 45p discount to the offer price?

Investors, it appears, are implicitly factoring in at least a 20 per cent probability that the deal might be blocked. But such a fat discount looks well over the top. For one thing, there is a strong chance that the decision will be waved through by the current government. For another, even if a Labour administration did end up taking the decision, it is difficult to see it blocking outright an agreed deal which it did not currently oppose and which raises no competition issues.

But Yorkshire is not the sector's only interesting point. Another is Southern Electric, now the only conventional regional electricity company left. There is, of course, no certainty that it will be bid for, nor that a bid would be successful in the face of an apparently independent-minded management. Nonetheless, the company does not look outrageously overvalued as a stand-alone entity. And a bid in line with Yorkshire's take-out price would imply a premium of £1 a share.

AMERICAS NEWS DIGEST

Morgan Stanley names merger chief

Morgan Stanley has asked Mr Steve Newhouse to take over responsibility for managing the merger of the US investment bank with brokerage Dean Witter, after Mr Bob Scott suffered a heart attack while on holiday in the Caribbean. Mr Newhouse was recently made deputy head of the investment bank's securities business, reporting to Mr Peter Karches. Before that he ran the high-yield bond department.

Mr Newhouse will manage the transition jointly with Mr Mitch Merlin from the Dean Witter side of the merger. Mr Merlin had already started working with Mr Scott, prior to his illness.

About 600 jobs are expected to be lost as a result of the merger. It is believed that the first phase of job cuts will be completed by the end of this week. The two groups currently employ a total of about 45,000 staff, but about 17,000 of those work in Dean Witter Discover's credit card business.

Tracy Corrigan, New York

Mitel warns of downturn

Mitel, the Ottawa-based maker of office switchboards and other telecommunications equipment, has warned that price pressures and high operating expenses will dampen earnings in the fourth quarter, ending March 31. Mitel forecast earnings for the quarter of 10 cents a share, down from 14 cents a year ago.

In addition, it plans a pre-tax restructuring charge relating to the business communications division of about C\$13m (US\$8.5m). According to First Call, an investment research group, analysis previously forecast fiscal 1997 earnings of 63 cents a share, up from 57 cents in 1996.

Mitel shares lost C\$1.05 to C\$3.80 at mid-morning in Toronto.

BHP to proceed with Chile mine

BHP, the Australian resources group, is to go ahead with a US\$470m oxide project at the Escondida copper mine in Chile, in which it is the majority partner and manager. The company said that the oxide project, which would allow for the extraction of copper from oxide ore, would have synergies with the existing sulphide operation, and would "enhance the overall economics considerably". Construction is expected to take about 18-20 months, and BHP is hopeful of getting environmental approval from the Chilean government by the end of March.

BHP is manager of the Escondida project, in which it holds a 57.5 per cent stake. Other shareholders include RTZ-CRA with 30 per cent, JECO with 10 per cent, and International Finance Corporation with the remaining 2.5 per cent.

The Australian company also said it would go ahead with development of the Oreboda 18 mine, the satellite oxide by the Mt. Whaleback mine in the rich iron ore Pilbara region. Development will cost A\$83m (US\$76.25m) and the mine should be in full production by mid-1998. The deposit is expected to produce 5m tonnes a year initially, rising to 10m tonnes a year.

Nikki Tatt, Sydney

Merrill Lynch takes dual role in electricity deal

Merrill Lynch, the US investment bank, took an unusual dual role as both adviser and lender to American Electric Power Company and Public Service Company of Colorado, in their bid for Yorkshire Electricity Group, writes Tracy Corrigan in New York.

In large bids, advice is typically provided by mergers and acquisitions specialists at an investment bank, while a loan to finance an acquisition is usually provided by a commercial bank.

As well as advising on the transaction, Merrill was sole underwriter of \$1.25bn

folio of foreign power stations.

Mr Wayne Brunetti, president and chief executive officer of PS Colorado, said it planned to expand through offering customers value-added services, and to increase its market share through alliances and acquisitions.

PS Colorado is currently merging with Southwestern Public Service Company, a deal which will double its generation capability and produce net savings of \$770m over 10 years.

AEP and PS Colorado will

TrizecHahn spends \$210m on NY offices

By Richard Waters in New York

Further evidence of the new liquidity in US commercial real estate emerged yesterday, as a half-share in a portfolio of New York office buildings changed hands for \$210m, and an insurance company came close to selling a \$1bn block of properties.

TrizecHahn, a Canadian real estate company, said it had agreed to buy a 49 per cent interest in three New York buildings with a total of 2.7m sq ft.

Meanwhile Chubb, an insurer,

was believed to be close to completing the sale of a portfolio of buildings stretching across the US east coast and the Midwest, comprising 8m sq ft.

The growing volume of transactions points to the wave of capital that has come into the US real estate sector. This is in part because investors are concerned about whether the stock market can continue its dizzying rise.

TrizecHahn, which was formed last autumn by the merger of Trizec and Horsham, said it had

nearly \$1.5bn available to back its

acquisition ambitions in the US and overseas.

Together with borrowing, that would support purchases of \$3.5bn to \$4bn, said Mr Greg Wilkins, president.

Beacon Properties, a US real estate company that was believed close to concluding the purchase from Chubb, also has considerable liquidity, having raised \$800m in new equity on the US stock market in 1996.

In spite of the large amount of

money looking for a home, the values at which buildings in many

parts of the country are being bought and sold has not changed materially.

In the office sector, higher occupancy levels in many downtown areas and a shortage of new construction has pushed rents up after a long lull in the early 1990s. The prices do not always reflect this.

According to Mr Wilkins, the price of TrizecHahn's latest acquisition will give it a yield of about 10 per cent, roughly in line with valuation levels in the sector.

With insurance companies active

sellers, "there are still good proper-

ties coming on to the market," he added.

The office sector has been one of the most active in recent months, helping the stocks of companies such as Beacon, an office building investor and developer in Boston, record powerful gains.

TrizecHahn regards the downtown office markets in a number of US cities as the best short-term investment opportunity.

The company had not selected any particular cities, but expected its purchases to be determined by "where the sellers are".

Doubts grow about leadership at Apple

Apple, the struggling personal computer manufacturer that is preparing to announce sweeping cutbacks and thousands of lay-offs, is facing a leadership crisis that could decide its fate.

Mr Gil Amelio, who this month completed his first year as Apple chairman and chief executive, is increasingly under fire. Confidence in his ability to revive the company has been shaken by declining sales and heavy losses.

Insiders say his influence is being undermined by Mr Steve Jobs, Apple co-founder, who himself was ousted as leader in 1985. Yet his recent return to Apple as part-time adviser to the chairman - following the \$430m acquisition of his company NeXT Software - was widely regarded as a brilliant public relations move by Mr Amelio.

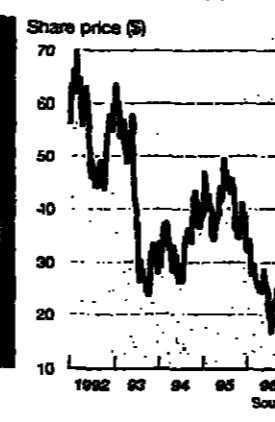
Mr Jobs has rapidly built a power base. Three former colleagues from NeXT have been installed in senior posts - as heads of hardware and software development and North American sales. All three sit on the seven-member executive committee that runs the company, in addition Mr Jobs and Mr Stephen Wozniak, Apple's other founder who returned this month as an adviser to Mr Amelio, attend some of these meetings.

These appointments have persuaded many within Apple of Mr Jobs' growing influence. The departure of

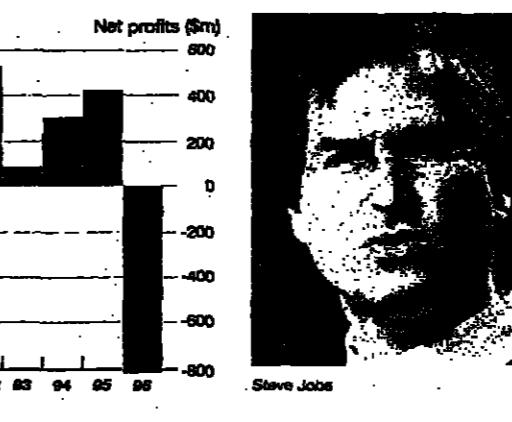
Apple Computers



Gilbert F. Amelio



Source: Datamonitor



Source: Datamonitor

create a new computer industry powerhouse. However, Pixar, his film animation company, has achieved acclaim for *Toy Story*, the computer animation film.

According to Apple, which does not speak officially for Mr Jobs, he has described speculation about his moving to acquire the company and take it private as a "fantasy".

The battle between Mr Amelio and Mr Jobs could turn out to be a storm in a teacup. The two are contrasting personalities - Mr Amelio a seasoned manager uncomfortable in the spotlight, versus Mr Jobs, the American entrepreneur, who thrives on publicity.

Should they find a way to marry their talents, the company might be better for their efforts. All the signs, however, point to yet another executive suit drama at Apple Computer.

Louise Kehoe

Anglo American Platinum Corporation Limited (Amplats)



Rustenburg Platinum Holdings Limited (Rustenburg)

Potgietersrust Platiniums Limited (PP Rust)

(All companies incorporated in the Republic of South Africa)

BASIS OF THE AWARD OF CAPITALISATION SHARES

Further to the announcement published on 4 February 1997, the basis of the awards of capitalisation shares have been determined as follows:

Anglo American Platinum Reg No. 59/02518/06

The number of capitalisation shares to which shareholders registered in the books of Amplats at the close of business on Friday, 28 February 1997 ("the record date") will be entitled will be determined by applying to their shareholdings on the record date the ratio that 42 cents bears to the weighted average traded price of the Company's ordinary shares on the Johannesburg Stock Exchange ("the JSE") during the three-day period ending 26 March 1997 ("the capitalisation award"). Instead of the capitalisation award, such shareholders may, in respect of all or part of their shareholdings, elect to receive instead an interim cash dividend of 40 cents per share in respect of the six months to 31 December 1996 ("the election").

Rustenburg Platinum Reg No. 05/22152/06

The number of capitalisation shares to which shareholders registered in the books of Rustenburg at the close of business on Friday, 28 February 1997 ("the record date") will be entitled will be determined by applying to their shareholdings on the record date the ratio that 52.50 cents bears to the weighted average traded price of the Company's ordinary shares on the Johannesburg Stock Exchange ("the JSE") during the three-day period ending 26 March 1997 ("the capitalisation award"). Instead of the capitalisation award, such shareholders may, in respect of all or part of their shareholdings, elect to receive instead an interim cash dividend of 50 cents per share in respect of the six months to 31 December 1996 ("the election").

Potgietersrust Platiniums Reg No. 01/083153/06

The number of capitalisation shares to which shareholders registered in the books of P.P. Rust at the close of business on Friday, 28 February 1997 ("the record date") will be entitled will be determined by applying to their shareholdings on the record date the ratio that 29.40 cents bears to the weighted average traded price of the Company's ordinary shares on the Johannesburg Stock Exchange ("the JSE") during the three-day period ending 26 March 1997 ("the capitalisation award"). Instead of the capitalisation award, such shareholders may, in respect of all or part of their shareholdings, elect to receive instead an interim cash dividend of 28 cents per share in respect of the six months to 31 December 1996 ("the election").

Neither the right to elect to receive a dividend nor the Form of Election is available to shareholders in any jurisdiction in which it is illegal to grant the same.

Fractions of shares

No fraction of a share will be allotted. Where entitlements to capitalisation shares would result in shareholders receiving fractions of shares, those fractions will be aggregated and sold on the JSE for the benefit of the relevant shareholders.

Closing of share registers

Shareholders are advised that the share registers will be closed from Monday, 3 March 1997 to Friday, 7 March 1997, both dates inclusive.

Listings of new shares

Applications will be made to the JSE and, in the case of Rustenburg and P.P. Rust, also the London Stock Exchange for capitalisation shares issued pursuant to the capitalisation awards to be listed with effect from the commencement of business on Wednesday, 9 April 1997.

Posting of share certificates and dividend/fractional entitlement cheques

Share certificates in respect of capitalisation shares and dividend/fractional entitlement cheques will be posted to shareholders on or about Wednesday, 9 April 1997.

Documentation

Documentation dealing with the capitalisation awards and the rights of election will be posted to shareholders on Friday, 7 March 1997. In order to be valid, completed election forms must be received by the Company's transfer secretaries no later than 12:00 on Thursday, 27 March 1997. Forms of election postmarked prior to 12:00 on 27 March 1997 will be accepted until Friday, 4 April 1997. Those shareholders who elect to receive an interim cash dividend instead of the capitalisation award are requested to make the return as soon as possible in case of postal delays. Capitalisation shares will automatically be issued to the shareholders concerned should any election forms not be received before the deadline.

A further announcement will be made on or about Wednesday, 9 April 1997 reporting on the results of the elections and confirming the posting date of share certificates and dividend/fractional entitlement cheques.

Johannesburg 24 February 1997

South African Transfer Secretaries

Consolidated Share Registrars Limited

First Floor, Edura

41 Fox Street

Johannesburg, 2001

(PO Box 61051, Marshalltown, 2107)

London Transfer Secretaries

Independent Registrars Group Limited

Balfour House

390-398 High Road

Ilford, Essex

IG1 1NQ

Energy groups take a global view

Deregulation has set US power companies scouting the world for opportunities

Merrill Lynch takes dual role in electricity deal

Merrill Lynch, the US investment bank, took an unusual dual role as both adviser and lender to American Electric Power Company and Public Service Company of Colorado, in their bid for Yorkshire Electricity Group, writes Tracy Corrigan in New York.

In large bids, advice is typically provided by mergers and acquisitions specialists at an investment bank, while a loan to finance an acquisition is usually provided by a commercial bank.

According to Mr Jon Kutler, president of Quarter-

deck Investment Partners, a specialist investment banker, many cross-border transactions and disposals of non-core businesses are to be expected after the five-year merger process which has seen US defence industry power concentrated in a handful of large groups.

Loft, based in New York, said its French partners, Aerospatiale and Alcatel Espace, and Alenia Spazio would receive \$281m-worth of stock for their stakes in Space Systems and continue to be represented on the board. Germany's Daimler-Benz Aerospace chose to take cash and surrender its seats.

All would continue to collaborate on building and marketing satellites for television broadcasting, weather observation and telecommunications.

The deal reflects a growing trend for US investment banks to push into the traditional territory of commercial banks, while commercial banks have made some progress in securities underwriting, particularly in areas such as junk bonds.

COMPANIES AND FINANCE: ASIA-PACIFIC

Brierley loses battle on Fairfax stake

By Nikki Tait in Sydney

Australian institutions have won their battle with Brierley Investments (BIL), the New Zealand investment group, over its proposal to purchase a further 5 per cent of John Fairfax, the Australian newspaper publisher, from Mr Conrad Black's Telegraph group.

BIL's move needed shareholder approval because it would take it over the 20 per cent level, at which it would be required to make a bid

unless shareholders waived the obligation.

BIL had already acquired a 19.9 per cent interest in Fairfax from the Telegraph group last year. It was proposing to buy the additional shares at the same price of A\$2.22 although, in the intervening months, the Fairfax price had strengthened, standing now at about A\$3.14.

Yesterday, Fairfax announced that a formal poll, taken after a shareholders' meeting on Friday,

had rejected BIL's proposal, although it did not reveal how many voted each way. At the meeting, the purchase had been voted down on a show of hands, with small shareholders expressing their unhappiness over the proposal.

However, proposals to appoint Mr Rodney Price and Sir Roger Douglas to the Fairfax board as BIL's representatives - also put to a formal poll - were passed. Mr Price will become deputy chair-

man, replacing Mr Dan Colson, who remains a director. Mr Black is resigning from the board.

The 5 per cent purchase was opposed by some of Australia's biggest institutional investors. They were reluctant to see the 20 per cent threshold waived for no benefit to existing Fairfax shareholders, and to allow BIL to buy shares at a discount to the market price.

BIL has indicated it still intended to increase its stake through the "creep" rule, which would allow it

to buy another 3 per cent each six months, although it would not say what price limit might apply on those shares. It will be unable to go beyond 25 per cent of Fairfax, because of Australia's restrictions on foreign ownership of media assets.

Last week, Mr Price said BIL thought the 25 per cent cap was too low and that 49 per cent might be better. However, BIL had not made any formal application to have the limit raised.

A\$16.8m loss at Comalco

By Nikki Tait in Sydney

Lower prices, a stronger Australian dollar and restructuring costs sent Comalco, the integrated aluminium group, tumbling into the red in 1997.

The company made a A\$16.8m (US\$13.1m) loss after tax, including its share of results from joint-venture companies, a sharp turnaround from the A\$23.3m profit posted in 1995.

The decline was caused partly by a A\$87.7m abnormal charge which reflected costs of pulling out of the kaolin business at Weipa, shedding downstream assets and "restructuring" its workforce. However, even before abnormal, Comalco's after-tax operating profit was reduced to A\$32.9m, compared with last time's A\$264.8m.

The results were scored on sales revenue of A\$1.52bn, down from A\$2.17bn in 1995. This fall was largely due to the sale of downstream businesses, which contributed A\$808.2m in 1995.

The decline in aluminium prices - with the LME average price falling from US\$0.83 a pound in 1995 to US\$0.696 in 1996 - also depressed the sales figure, although this was partly off-

set by higher volumes for bauxite, alumina and primary aluminium. Comalco said the downturn in aluminium prices alone accounted for A\$16.8m of the profit swing, with exchange rate movements explaining a further A\$3.2m of profits. The smelting division operated at a loss, while the bauxite mining and alumina interests were profitable.

The company called the result "unsatisfactory", but expected demand for aluminium to improve "slightly" in 1997. This would depend on Europe and the US, with no growth in Asian consumption expected this year.

Comalco also suggested there were signs the aluminium market was moving into equilibrium in late 1996, a trend it expected to continue this year. "Providing LME stocks do not fall below about 500,000 tonnes this year, the aluminium industry may expect a less volatile price cycle," it said.

The company also announced yesterday that it would move its corporate headquarters to Brisbane from Melbourne later this year.

Tata Tea hopes to raise tea

Tata sets tea-bag trend

The Indian grower is changing its commodity into a brand

Tata Tea, India's largest tea company, in which the Tata Group is the most important shareholder, is seen as the trend setter in an industry bound by tradition. Unlike the other producers, the company has steadily shrunk its offerings of tea at auction, and now sells more than 90 per cent of its production in value-added packets, bags and as ready-to-drink tea.

Mr RK Krishna Kumar, managing director, says: "The reason we moved away from selling tea at the auction was to realise the full value for the crop we grow. The focus on consumer marketing has enabled us to maximise the return for stakeholders."

With this strategy, the company has been able to insulate itself from the fluctuations in auction prices.

Mr Vijay Dudeja, chairman of Paramount Tea Marketing in Calcutta, a leading broking firm comments: "The consumer marketing of tea has lent stability to the company's income and profits. There is no correlation between the auction and packet tea prices. The stability in income has allowed the company to make an investment programme for the future - an uncommon feature in the industry."

Tata Tea hopes to raise tea



With 25 per cent of India's packet tea market, Tata is expanding into Sri Lanka and Kenya

production from 57.75m kg in 1995-96 to 60m kg in 1996-97 from its gardens in Assam, West Bengal, Kerala and Tamil Nadu. It is implementing a Rs1.5bn (US\$4.6m) "asset upgrading programme", which includes replacing ageing tea bushes and better maintenance of the bushes.

Tata Tea has a 25 per cent share of the country's packet tea market, compared with Hindustan Lever's 55 per cent, a Unilever subsidiary which markets tea under Brooke Bond and Lipton brands.

Mr Krishna Kumar says: "We face fierce competition from Hindustan Lever. But we have a faster rate of growth [in sales]. And we have not positioned our products as cheaper alternatives to Lever tea."

Starting in 1991-92, Tata Tea has been recording growth of 20 per cent a year in sales of branded tea. "What has contributed to our marketing success is the rapid change in consumer preference from loose tea to packet tea," says Mr Krishna Kumar.

Encouraged by Tata Tea's success, other leading tea companies, such as Magors, Goodricke, Duncans, Harrisons Malayalam and AV

Thomas, have started marketing tea in packets.

Tata Tea has said it wanted to become a global tea company by acquiring gardens in all leading producing countries and investing heavily in the "promotion of the Tata brand abroad".

In Sri Lanka, it anticipated two years ago its privatisation of plantation companies which is now going on, by buying 49 per cent of Estate Management Services, a plantation managing agency. Through EMS, it has acquired 51 per cent of Watawala Plantations, which produces nearly 8m kg of tea, 4m kg of palm oil and 1.65m kg of rubber.

It will not be long before

Tata Tea has made its first acquisition in Kenya whose CTC (cut, tear and curl) tea is very popular in the UK and other European markets.

"We are in the process of identifying properties in Kenya. Wherever we go, we will need a critical mass of 10m kg of tea," says Mr Krishna Kumar.

The company will also expand production within India. In the past couple of years, it has bought two gardens in Assam and one in West Bengal. "Even though the cost of acquisition is

Kunal Bose

Puma to make its first

international bond issue

By Peter Montagnon in Sydney

Puma Management, the mortgage-securitisation vehicle owned by Macquarie Bank, plans to issue its first bonds in international markets later this year following changes to Australian rules on withholding tax.

The issue will be in US dollars and is expected to be for between \$400m and \$600m, although its launch may have to wait several months while the tax changes pass through parliament.

Currently, international issues are hampered by the imposition of a 10 per cent withholding tax on issues by securitisation vehicles incorporated in Australia.

Mr Anthony Gill, Puma

managing director, said Macquarie Bank has been keen to see the rules changed so that it could diversify its source of liquidity for securitising mortgages.

Last year Puma securitised A\$1.3bn (US\$794m) of mortgages through issues on the local market which were swapped up by Australia's fast-growing pension funds.

Pension fund contributions have become compulsory in Australia, making funds liquid and enabling securitisation activity to race ahead.

This has sparked a price war in the mortgage market with non-bank lenders making inroads into what was previously a lucrative activity for commercial banks. But there is a limit to how far pension funds will want

to become exposed to any single securitisation vehicle.

"Overseas issues would broaden the investor base," said Mr Patrick Eng of Moody's Investor Services.

Their launch could prompt a further contraction in the margins over bank bills at which mortgage-backed paper is traded, currently about 17 basis points, said Mr Sean McElroy, head of asset-backed finance at Westpac Banking. But the effect may be limited because the spreads are already fine and the paper is not especially liquid.

Westpac has already devised a structure allowing it to securitise some third party mortgages overseas. But its Waratah vehicle is at arms length from origination and funding of mortgages.

NTT, IBM in network deal

By Michio Nakamoto in Tokyo

NTT, Japan's dominant domestic telecoms operator, and IBM, the US computer group, have agreed to co-operate in network computing in Japan.

The two companies will begin their collaboration with a study of how they might bring together their network infrastructures, platforms, technologies and complementary skills in the field of network computing.

The deal highlights NTT's ambition to become more than a provider of telecoms infrastructure. "NTT is offering network services to corporate customers who have been moving towards data processing on networks," said Mr Keiji Tachikawa, senior executive vice-president of NTT.

"In order for a carrier like NTT to serve customers, we cannot just transmit information, but we must expand our information-processing business," he said.

ASIA-PACIFIC NEWS DIGEST

NZ press group stable at halfway

Independent Newspapers, the group 49 per cent owned by Mr Rupert Murdoch's News Limited, yesterday reported a marginal improvement in interim after-tax profits, from NZ\$25.9m to NZ\$26.2m (US\$16.3m). Directors said the result was very satisfactory given the difficult climate for its papers and magazines in Australia and New Zealand. Earnings before tax and unusual items rose 10.7 per cent, to \$48.85m, for the six months to December 31.

Restructuring of Gordon and Gotch, the biggest distributor of magazines in Australasia, involved severance costs of NZ\$1.1m for laying off 100 staff.

Directors said this would lead to a much improved result. Development write-downs of NZ\$1.3m were also incurred by the Taranaki CD-Rom publishing business in the US following disappointing sales. Independent's US publishing companies, Houston Community Newspapers and West Coast Community Newspapers, recorded better performances. Revenues of NZ\$47.7m were steady.

Directors said the outlook was for improved trading over the rest of the year, helped by higher advertising revenues and newsprint reductions.

Terry Hall, Wellington

QBE advances 20.6%

QBE Insurance, the Australian general insurer, yesterday announced a 20.6 per cent increase in after-tax profits, to A\$70.8m (US\$49.2m). In the six months to end-December, after strong results from its reinsurance interests. The company, which has objected to the Australian system of marking investments to market in insurance company results, instead uses a rolling seven-year system of accounting for realised and unrealised equity and property gains. Under conventional accounting rules, it would have made an A\$65.4m after-tax profit, up from A\$38.6m in the first half of 1996.

Net earned premium increased 12.3 per cent, to A\$643.2m, and earnings per share increased from 21.3 cents to 24.8 cents on the seven-year spread basis. The combined operating ratio increased slightly, from 100.1 per cent to 100.5 per cent.

The reinsurance operations, which now take in the London-based Allstate Reinsurance interests, increased their contribution to operating profit from A\$23.1m to A\$36.2. The general insurance business, meanwhile, made a slightly lower profit of A\$34.6m, after A\$35.6m previously, with a stronger Australian result outweighed by a downturn from Asian interests.

Nicki Tait, Sydney

Qantas and Air NZ end link

Qantas, the privatised Australian airline, and Air New Zealand are to end their "air-share" agreement on trans-Tasman routes from May 1. Qantas said the arrangement, whereby each airline shared flight numbers, was "no longer commercially appropriate", but Air New Zealand added that the two carriers were "now at different points in their development".

There has been increased competition on the trans-Tasman routes recently, with Air New Zealand launching a "no frills" subsidiary called Freedom Air to compete with the now-collapsed Kiwi International Airlines. Last week, Qantas said it did not intend to go down this path. Last year, Air New Zealand also acquired a 50 per cent interest in Ansett, the main domestic competitor to Qantas in Australia.

The move to end the airshare agreement comes amid renewed speculation that Qantas could exit from its 19.9 per cent interest in Air New Zealand.

Nicki Tait

Foster's grants Spain licence

Foster's Brewing, the Australian drinks group, yesterday announced a licensing agreement with Spain's San Miguel, which will allow its products to be brewed at the Lerida brewery near Barcelona. At present, Foster's products are imported into Spain and distributed by independents. As part of the agreement with San Miguel, the product will go through the Spanish brewer's network of wholesalers. Spain will be the fifth market in Europe to produce Foster's products locally.

Foster's said it expected European sales to top 4m hectolitres - or 50m cases - in the year to end-June.

Nicki Tait

Optus postpones results

Optus Communications, the Australian telecoms carrier, has postponed the release of its half-year results because of ongoing litigation with Mr Kerry Stokes' Seven Network, the commercial television network which is a fellow shareholder in the Optus Vision pay-TV consortium.

The Sydney company cancelled media and analysts presentations yesterday "in order to provide shareholders with the opportunity to discuss the half-year accounts and the issues related to Optus Vision at its regular meeting scheduled for Thursday, February 27". No new date has been fixed for the results' release. Optus' shareholders include Cable and Wireless in the UK, BellSouth in the US, Australia's Mayne Nickless and a number of institutional investors.

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@com

NOTICE OF ADJUSTMENT OF CONVERSION RATE

Alberto-Culver Company 5 1/2% Convertible Subordinated Debentures Due 2003

NOTICE IS HEREBY GIVEN to the holders of the subordinated debentures of Alberto-Culver Company (the "Company") and Bankers Trust Company, as Trustee, and in accordance with Section 1204 of the Trust Agreement, that on February 20, 1997, the Company paid a 100% cash dividend on the Company's Class A and Class B Common Stock to holders of record at the close of business on February 3, 1997.

The conversion rate will be adjusted pursuant to Section 1204(1) of the Trust Agreement to reflect the 100% stock dividend and, as a result, the principal amount of the debentures will be increased by 100%.

The adjusted conversion rate is 61.776 shares of Class A Common Stock per \$1,000 principal amount of Securities converted to a Conversion Price of approximately US\$116.1875 per share.

Capitalized interest will be paid to the debenture holders on the record date.

ALBERTO-CULVER COMPANY By: William J. Coughlin, Senior Vice-President, Finance and Controller

Dated: February 23, 1997

The Board of Directors proposes a dividend per share of SEK 9.50 and that Tuesday, March 25, 1997 be the record date for the dividend. If the Meeting approves the proposal, it is expected that the dividend will be distributed by VPC on Thursday, April 3, 1997.

Board of Directors

Shareholders representing approximately 75 percent of the shares in the Bank have announced that at the Meeting they intend to propose the re-election of Jacob Palmstierna, Rune Brandtner, Hans Dalborg, Dan Andersson, Patrik Fredell, Leif Gustafsson, Inga-Lisa Johansson, Christina Liffner, Bernt Magnusson and Margot Wikström. Sten Lindblad, EVP Nordbanken, is proposed as Deputy Member.

Stockholm, February 1997
Board of Directors

JPX:1550

COMMODITIES AND AGRICULTURE

Paris withdraws mining licence from Eramet

By David Buchanan in Paris

The French government yesterday started moves to withdraw an important nickel mining licence from Eramet, the state-controlled mining group.

Rights to the Koniambo nickel mine may pass to the Kanak government of New Caledonia's northern province, which is controlled by the FLNKS pro-independence political party.

The move is a response to politi-

cal demands by FLNKS that the mining issue be settled before it agrees to talks on side-stepping the referendum on New Caledonia's independence from France slated for next year.

In a statement, the French government promised that the interests of Eramet - the world's third biggest nickel producer - would not suffer. Eramet has not used its Koniambo concession since 1975. The government has invoked a clause in its mining law allow-

ing it to take back rights to any mine not exploited for 10 years.

However, to compensate foreign investors who bought into Eramet when it was partially privatised in 1994, the government is ready to pay a hefty compensation payment, officials said yesterday.

Shares in Eramet - more than 5 per cent of which are held by the US pension funds Funds and Templetion - fell by 11.8 per cent yesterday to close at FFr270. Some 90,000 shares changed hands, or

more than four times the volume traded last Friday.

Mr Yves Rambaud, the president of Eramet, called the government decision extremely serious and said it put the company's future in question. Eramet contests the government's claim that it had effectively abandoned the Koniambo mine, saying it had long-planned to resume operations by 2010. The company complained that the French government had suddenly backtracked from an

exchange of mines that it had been negotiating with SMSP, the mining company controlled by the FLNKS.

Under this mooted deal, Eramet would have swapped Koniambo for SMSP's smaller Poum mine, with compensation paid for the probable higher value of Koniambo. This deal would have been agreed once the smelter to be built by Falconbridge of Canada at Koniambo for SMSP had been completed. The delayed transfer

would have given Eramet time to evaluate the real worth of the Koniambo site which is spread over 11,000 hectares.

But French government officials explained that FLNKS was now demanding an immediate exchange of the mines, leaving insufficient time for them to be properly valued. Under French mining law, Eramet has four months to contest the action.

See Lex

Cattle disease hits east Africa

By Alison Maitland

An epidemic of rinderpest, a highly contagious and lethal disease in cattle and wildlife, is sweeping across Kenya and into Tanzania.

The UN Food and Agriculture Organisation said yesterday the outbreak is the worst for 15 years, and comes when parts of east Africa are suffering drought and food shortages.

"What appeared to start as an isolated local incident in Kenya is now developing into a major epidemic involving eastern and southern Kenya and north Tanzania, which had been free of rinderpest for 14 years," said the FAO.

The disease has been the cause of the worst cattle plague and can affect wild animals such as buffaloes, eland and giraffe.

Mr Mark Rweyemamu, an FAO expert, said the drought was aggravating the problem because animals were being moved out of traditional grazing areas in search of food and water. This was spreading the disease to wildlife and unvaccinated livestock.

The outbreak is threatening the Ngongoro and Serengeti wildlife reserves as well as livestock in southern Tanzania and countries further south. The FAO is surveying the outbreak with specialists from Kenya and Tanzania and the Organisation of African Unity. It says resources are not sufficient for surveillance and control in either country.

"Substantial donor support is urgently needed for a trans-boundary regional control programme to prevent a major livestock and wildlife catastrophe that could have serious consequences for food security in eastern and southern Africa," said the FAO.

Fund buying lifts nickel

MARKETS REPORT

By Richard Lapper

Buying by commodity funds was one of the causes of a surge in nickel and aluminium prices on the London Metal Exchange yesterday.

Reports of possible strike action at Norilsk Nickel, the giant Russian metals group, also influenced sentiment, helping nickel reach its highest for nine months.

Nickel for three-month delivery ended the day at \$6,085 a tonne, up \$172.50 and just off the day's high of \$6,120 - the strongest level since May 1996. The price of aluminium for three-month delivery surged to its highest since June last year, closing at \$1,684 a tonne, a gain of \$29.75 on the day.

The news from Russia helped nickel push through what traders had identified as a point of technical resistance at \$6,000 a ton. Russia accounts for 15 to 17 per cent of world nickel output, with about nine-tenths of the total coming from Norilsk.

"Anything to do with Norilsk makes the market very nervous and we've seen some panic short-covering," said Mr Angus MacMillan, research manager at Billiton Enthoven Metals.

The latest surge follows a strong performance by

nickel this year, with prices rising by more than 25 per cent. Production of stainless steel, which absorbs 60 per cent of world nickel output, is now rising faster than industrial growth.

Mr William Adams, research analyst at Rudolf Wolff, said the turnaround in stainless steel from last year's depressed state had caught traders off guard.

News that Colombia would draw on its stocks to bolster exports in spite of a lower than expected 1996-97 harvest had a limited impact on the market.

The benchmark contract for May delivery on the London International Financial Futures Exchange settled down \$5 at \$1,550 a tonne, well off the day's lows of \$1,513. By midday in New York the May contract was marginally higher than Friday's close at \$1,620.10 a lb, having traded between \$160 and \$163.50.

The price of gold drifted slightly lower. At London's afternoon "fix" the price was \$363.05 a troy ounce, down 25 cents on Friday's close.

On London's International Petroleum Exchange oil prices fell further. In late trading Brent Blend for April delivery - the international benchmark - was \$19.48 a barrel, down 39 cents on Friday's close.

"All our hopes are on Funcafe and the CDPC," said Mr de Lima. "We are sure the fund's management will improve with private sector involvement."

The coffee growers of the Cerrado, a rich expanse of agricultural land in the Brazilian state of Minas Gerais, like to think of themselves as the most modern producers in the world. But they do not feel they are realising their full potential, and they know where to lay the blame.

"About 70 per cent of our producers haven't been able to put down fertilisers this year and the 1997-98 crop is under threat," says Mr Agualdo José de Lima, the Casser co-operative.

"We have always depended on the government for finance and they have not responded to our needs. The funds are there, but they are badly managed."

Finance for producers is provided by Funcafe, a federal fund with assets of about \$2bn administered by government-controlled Banco do Brasil.

At the start of this month control of Funcafe passed to a new coffee policy committee, the CDPC, a council of 12 members split between government and the private sector. Its task is to construct what the industry hopes will be the first coherent coffee policies since the extinction of the Instituto Brasileiro do Café in 1990.

Prospects for world consumption suggest the industry can face the future with equanimity. Consumption rose from 63m bags in 1985 to about 96m bags last year.

Brazil is by far the world's biggest coffee producer, but the industry is confident it has room for growth. Production in 1996-97 is estimated at about 27m 60-kg bags, generally held to be a good harvest.

Good years seldom come in pairs, and estimates of the 1997-98 crop suggest it will produce around 23m bags. Growers think that with efficiency gains and new plantings, production could rise to more than 30m bags by the end of the decade.

This has significant implications for Brazil's economy. Exports were worth about \$2.1m last year; Mr Mauricio Assis, secretary for raw materials at the trade and industry ministry, says export and domestic earnings amount to about \$5bn a year, or 3.5 per cent of GDP.

He believes Brazil could add \$500,000 a year to exports through increased production and greater added value. "That would create another 500,000 jobs, and we can do it," he says.

The industry is a substantial employer, providing about 1m direct and 3m indirect jobs in 10 of Brazil's 27 states. There are 210,000 growers, 1,700 roasters and millers, 11 soluble coffee makers and 144 exporters.

Although growth has slowed in the past 20 years, the International Coffee Organisation expects an upturn in demand from emerging market countries to help raise consumption to 108m bags in 2000 and up to 120m bags by 2005.

Brazil's domestic market is growing too. Consumption fell between 1985 and 1985 to 8.15m bags to 6.45m bags: more alarmingly, per capita consumption fell from 4.72 kg in 1985 to 2.27 kg.

"That's when the red light went on and something had to be done," says Mr David Nahum, secretary general of the roasters' association, Abic.

Consumers it was found, felt coffee available in Brazil was of poor quality. Often, they were right: better coffee was saved for export and 30 per cent of roasters adulterated their product with corn flour and sugar.

Abic introduced a "seal of purity" scheme and spent heavily on marketing to improve coffee's image. Consumption recovered quickly, rising to about 1.12 bags last year. Mr Nahum reckons the figure could rise to 1.5m bags by 2000, equal to per capita consumption of 4.35 kg.

"We're not proposing any miracles," he says. "All we want to do is bring consumption close to its 1985 level."

Mr Assis says the government must provide finance and help reduce costs by improving infrastructure and trimming bureaucracy.

Both sides expect the CDPC's role to be crucial. "It's all a question of getting the policies right," says Mr de Lima. "What has been lacking is proper planning from both the public and the private sectors. But the conditions are now right and coffee's problems have never been so close to a solution."

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| Stock | Ex. Date | W | Stk | High | Low | Close | Chg. | Div. | Yld. | Open | Prev. Close |
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| Continued from previous page | | | | | | | | | | | |
| 201 12 22 1996 | 0.02 0.07 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 202 17 2000 | 0.08 0.15 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 203 12 22 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 204 14 12 2000 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 205 15 12 2000 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 206 16 12 2000 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 207 17 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 208 18 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 209 19 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 210 20 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 211 21 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 212 22 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 213 23 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 214 24 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 215 25 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 216 26 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 217 27 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 218 28 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 219 29 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 220 30 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 221 31 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 222 32 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 223 33 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 224 34 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 225 35 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 226 36 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 227 37 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 228 38 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 229 39 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 230 40 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 231 41 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 232 42 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 233 43 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 234 44 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 235 45 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 236 46 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 237 47 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 238 48 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 239 49 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 240 50 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 241 51 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 242 52 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 243 53 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 244 54 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 245 55 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 246 56 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 247 57 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 248 58 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 249 59 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 250 60 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 251 61 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 252 62 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 253 63 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 254 64 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 255 65 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 256 66 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 257 67 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 258 68 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 259 69 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 260 70 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 261 71 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 262 72 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 263 73 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 264 74 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 265 75 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 266 76 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 267 77 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 268 78 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 269 79 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 270 80 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 271 81 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 272 82 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 273 83 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | 0 | | | | |
| 274 84 1996 | 0.02 0.04 1995 | 10 | 10 | 10 | 10 | 10 | | | | | |

Philip Morris Paris thrives on sharp individual swings

AMERICAS

US shares started the day weaker before bouncing off their lows, writes Lisa Branstetter in New York.

The Dow Jones Industrial Average fell more than 25 points in the first few minutes of trading; it then stabilised, and began moving higher after about 15 minutes. By 1pm, the blue chip index was 43.86 stronger at 6,975.48 and the Standard & Poor's 500 had gained 3.49 at 805.26. NYSE volume came to 253m shares.

The Nasdaq composite also reversed early losses, but did not match the gains made on broader indices. In early afternoon trade, the Nasdaq was 3.87 stronger at 1,238.19. The Pacific Stock Exchange technology index added 0.5 per cent.

Gains on the stock market came in spite of modest losses in bonds, which were pressured by a drop in the value of the dollar and worries ahead of congressional testimony from Mr Alan Greenspan, chairman of the Federal Reserve. Mr Greenspan rattled stock and bond markets last year when he questioned how investors would know when financial markets had been gripped by "irrational exuberance".

There was evidence that investors were nervous about the strong gains made so far this year. The number of NYSE shares sold short

rose to its highest level ever in the four weeks ended February 15.

Among Dow stocks, Philip Morris, the tobacco and food company, jumped 54¢ or 4 per cent at \$138.30 to recover all of the losses made last week. IBM gained \$4 or 3 per cent at \$141.54.

Elsewhere, Chubb, the US insurer, added \$1 at \$58.75 to 5 per cent to FF21.70 and Bic gained FF21.80 to FF24.8. But Valeo, which puts out annual results today and which also joined the senior index, slipped FF21.70 to FF20.60.

Axa improved FF77 to FF78.75, declining to comment on persistent talk that it was about to put one of its life insurance units to Jeffrey Pilot for \$875m and use the proceeds for stock repurchases. Jefferson Pilot rose \$2 or 4 per cent to \$59.50.

B'Trade Group, an Internet broking house, jumped \$1.15 or 10 per cent to \$11.75 on news that it had signed an agreement with Microsoft to offer its services through the software giant's online investing area.

TORONTO had a mixed morning session, and at noon the 300 composite index was off 11.35 at 6,215.70. Nine of the index's 14 sub-sectors were showing declines with gains and consumer products leading the way down.

Bre-X Minerals continued to slide, falling C\$1.25 to C\$19.55 for a two-day setback more than 11 per cent. Trading was again heavy with 36m shares changing hands.

Mitel shed C\$1.15 to C\$8.70 on news of a final-quarter restructuring charge. Trimac fell 15 cents to C\$10.10 on lower fourth-quarter earnings for 1996.

Buenos Aires 1.5% ahead

BUENOS AIRES traded 1.5 per cent higher at midsession in a continuation of Friday's upbeat tone as more external funds flowed on the back of the more stable US market and increasing purchases by local pension funds. The Merval index eased 0.12 to 115.76.

SAO PAULO moved marginally higher amid uncertainties over a possible court ruling this week that could suspend the government's B band cellular telephone concession programme. The Bovespa index was 13 higher at 87,208 at midsession.

SANTIAGO edged lower as news that economic growth was much stronger than expected in December dashed hopes of a central bank interest rate cut next month. The IPSA index eased 0.12 to 115.76.

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ruling this week that could suspend the government's B band cellular telephone concession programme. The Bovespa index was 13 higher at 87,208 at midsession.

The Nikkei 225 average

closed 137.55 lower at 18,896.99, after trading between 19,229.49 and 18,895.85. However, advances outnumbered declines by 651 to 466, with 129 unchanged.

Mitsubishi Heavy Industries was the day's biggest casualty, following a downgrading of its investment rating by Nomura Securities, the most influential broking house for Japanese investors. It plunged Y56 to Y661, and was the day's most actively traded share.

Mr Martin Fankau, of

Deutsche Morgan Grenfell's institutional sales team in Tokyo, said: "Below the

EUROPE

The broad trading pattern in PARIS was uneven but it took in some sharp share price swings. Two of the three newcomers to the CAC 40 index shot ahead, and Axa-UAP bounced sharply on disposal talk.

AGF rose FF71.90 or 5.8 per cent to FF21.70 and Bic gained FF21.80 to FF24.8. But Valeo, which puts out annual results today and which also joined the senior index, slipped FF21.70 to FF20.60.

Axa improved FF77 to FF78.75, declining to comment on persistent talk that it was about to put one of its life insurance units to Jeffrey Pilot for \$875m and use the proceeds for stock repurchases. Jefferson Pilot rose \$2 or 4 per cent to \$59.50.

B'Trade Group, an Internet broking house, jumped \$1.15 or 10 per cent to \$11.75 on news that it had signed an agreement with Microsoft to offer its services through the software giant's online investing area.

Credit Lyonnais continued to attract "recovery" buying, adding FF98.90 to FF205. Eramet fell FF23.65 or almost 12 per cent to FF270 after the French government started moves to withdraw the company's New Caledonian nickel licence.

AMSTEDAM moved higher, helped by heavy buy-

ing of Hoogovens after a leading broker was said to have issued a buy note. The two UK insurance operations up for sale. The CAC 40 rose 5.01 to 2,567.85.

However, the high spot of the day was the return to trading at Club Med following the weekend news of a new chief executive for the holiday group. The shares surged 7.26 per cent, closing FF75.50 higher at FF74.35 in a two-day gain of 9 per cent.

At the close, the AEX index was 4.59 higher at 8,735.81. ABN Amro was in demand, rising FI 4.10 to FI 14.05 ahead of Thursday's results statement. DSM and Hagemeyer, which put out annual numbers today and tomorrow respectively, were also strong.

DSM rose FI 5.90 to FI 185 and Hagemeyer FI 7.40 to FI 187. The latter also gained from rumours that Opel, the German arm of General Motors of the US, was to acquire Lada, the Russian carmaker whose products Hagemeyer imports.

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